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INTERNATIONAL TRADE

A Review of the Economics of
Foreign Trade in Its Relation
to the Individual Trader

By

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Chief of the Bureau of Foreign and
Domestic Commerce*

Being the First
Unit of a Course
in Foreign Trade

BUSINESS TRAINING CORPORATION
NEW YORK CITY

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Course in Foreign Trade

Edward Ewing Pratt - - - Director

The text of the course is issued in twelve units as follows:

	TITLE		AUTHOR
I.	International Trade		Edward Ewing Pratt
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III.	Export Policies		{ P. B. Kennedy E. C. Porter
IV.	Export Houses		{ John F. Fowler C. A. Richards Henry A. Talbot
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BUSINESS TRAINING CORPORATION
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World Trade Forces

IN November, 1795, there cleared from Salem harbor for a secret destination the good ship *Rajah*; captain, Carnes; owner, Jonathan Peele; four guns and ten men. Close-packed in her hold was a cargo of gin, brandy, tobacco, bar iron and dried fish. It was Mr. Peele's secret venture to the island of Sumatra. Eighteen months later the *Rajah*, to the great excitement of envious shippers, dropped anchor again in Salem harbor, filled to the hatch coamings with wild pepper, that showed a net profit of 700 per cent. on the cost of ship and voyage.

It was the era of the individual in foreign commerce. Export undertakings were conceived, promoted and carried to completion, often single-handed, by free lances in the world's markets.

Today the exporter is a unit in an enormous and complex mechanism. His shipment, be it one dollar or a million, passes through dozens of hands and reacts on the whole structure of world trade. He must fit himself into this mechanism and obey its laws.

What, then, are those influences that he must obey? What are the great world trade forces?

I

What is Foreign Trade?

ONE Monday morning the mail clerk laid a yellow manila envelope, bearing a foreign stamp and postmark and addressed in an obviously foreign hand, on the desk of Peter Smith, general manager of the Triangle Manufacturing Company. Somehow the letter appealed to the clerk as calling for special treatment, *A Letter from Abroad* and acting on this subconscious suggestion she placed it unopened right on the front center of the desk, where Mr. Smith would be sure to see it first thing. Beside it, in striking contrast, was the other mail piled in an orderly heap on the right.

The Triangle Manufacturing Company was a young concern, engaged in the manufacture and sale of several hardware specialties the patents of which it controlled. It was still a small concern, but rapidly growing under the administration of Peter Smith, whose sound sense and keen enthusiasm and faculty for making friends were quite as valuable an asset to the company as its highly-prized pat-

ents. At least, this was the judgment of the chief stockholder, Junius B. Beverly. Beverly was an old iron manufacturer of wide experience who had his finger in a dozen industrial pies, among which the Triangle Manufacturing Company was the latest. Smith had served his apprenticeship as a salesman in one of Beverly's older companies, had rapidly risen to the responsibility of a branch managership, and in this position had so won the confidence and esteem of his employer that when Beverly acquired control of the struggling Triangle Company he placed Smith in charge and told him to make good. For a year now Smith had been doing just that. He had been making good—which is to say that the Triangle Manufacturing Company had been brought out of its state of somnolence, new and time-saving methods had been installed in the production department, new life and an assured confidence had been put into its sales effort, and results were being realized. The goods were being produced, and in spite of keen competition the company was finding a ready market for all it could make.

This was the state of affairs that Monday morning when the foreign-looking letter was placed apart on Mr. Smith's desk—and when Mr. Beverly arrived quite unexpectedly. Yes, the old man had come down from Chi-

cago to drop in on Smith and congratulate him on his successful year and wish him "many more of 'em." Arriving early, he had the run of the place for half an hour before Smith arrived; and when the general manager did get in he found old Beverly seated in his office, puffing away at a cigar, looking over some pocket memoranda. An interesting conference followed—a conference in which the old man laid before his young lieutenant some plans he had for enlarging the plant and increasing the organization to prepare for the very much bigger business which seemed just ahead.

"I reckon from that," said Beverly, nodding toward the unopened letter in the middle of the desk, "that you're dabbling a bit after foreign business.

"Wasn't prying," the old man hastened to add, "but just couldn't help seeing the foreign-looking thing."

"Why no, I can hardly say that we are going after any foreign business," answered Smith, as he picked up the envelope, slit it, took out the letter, and unfolded it. He read a moment in silence, and then without comment passed the sheet of writing over to his chief.

Mr. Beverly put on his spectacles and this is what he read:

ABDUL MURANGEE
Merchant of Hardware
Complete Stocks

KANDY, Ceylon, Aug. 21, 1919.

To the gen'l mgr. of Sales.
Triangle Mfg. Co.,
Pittsburgh, U. S. A.

Honoured Sir:—As I am very fortunate in just coming across your XDRA springs in use in one of consulates here, and noting the epithet "Triangle Mfg. Co.," I am now taking this first opportunity of communicating with your Co. in the expectancy of selling here. I would mention that I have never come across such good door spring; and others thinks same. Handle all kinds of hardware goods, and refer you to Burr & Unwin, of London, and the Oriental Bank of Singapore, for reference so you can look up. Cable therefore please best terms on ten grosses cif here in Kandy. Would esteem it great gift to see catalogue of screening you manufacture, and other hardware articles of your factory. Am closing this letter with hope of hearing from you soon; and in meantime wishing the President, Vice-President, Secretary and Treasurer, and your goodself every success.

I am, dear Sir, your most obedient servant,
ABDUL MURANGEE

"You'd think, chief," said Smith smiling, when Beverly looked up from his reading, "that business just walks into this establishment. Well, it isn't so easy as that—not the real business. But this letter will look great in our advertising."

The chief frowned ever so slightly, as he

handed the letter back. "Oh, I think I know where to give credit, Peter," he chided gently. "But why the distinction? Isn't this letter business?"

"Of course it's business if we want to go out for that sort of thing. But we haven't any export department, I've got my hands pretty well full of business here at home, and on first thought I would say that just now we can't go cabling to India or the other end of the world on the chance of picking up a little extra business. That would be my judgment, Mr. Beverly. I know your Industrial Products Company has a big foreign business, but its exporting is organized on a scientific basis and operated in a big way, and is quite a different thing from the Triangle Company, at this stage of its growth, jumping into all the complications and difficulties of exporting on the bait of a chance order from Ceylon."

*Domestic vs.
Foreign Trade*

"I can appreciate your viewpoint in this matter, Peter," returned Mr. Beverly, "and I am inclined to agree with you—that is, looking at the thing from that point of view. But," and here he reached over and picked up the letter again, "there's another point of view.

"Suppose that this letter were from Texas, let us say Matamoras, Texas. What would you do then? Would you consider it a good

prospect for business? Would you telegraph terms?"

"Sure I would," answered the general manager. "That would be domestic business, the sort of business we are working for."

"But Texas is not down on our sales campaign territory. You have no plans for working that section yet."

"No," admitted Smith, "but it's here in the United States. I can get information about an inquirer, I can consult Dun or Bradstreet, my bank can help me in collections. Texas is quite a different proposition from Ceylon."

"It is in details," said Mr. Beverly, "just as selling Kansas is a different proposition from selling Rhode Island; but not in fundamentals, not in principles. This question of foreign trade happens to be a mighty interesting one to me just now. I've been looking into it, and attended a meeting last month of the National Foreign Trade Council. In fact I had in mind suggesting to you that we begin to look for openings to cultivate business for the Triangle outside the U. S. A.; not because our home territory is covered, or is less profitable, but because the present state of affairs in the world opens some big opportunities in foreign markets, and we want to use those opportunities while they are here. Our plans for enlarging the plant look forward several years,

and I don't mind telling you that I count on this business becoming one of the biggest of those I'm interested in. To do that you've got to get into the foreign field. That's my judgment, and if you don't mind I'll just take a few minutes to sell you my point of view."

"I'm willing to be convinced," said Smith smiling.

"I know what you are thinking, Peter. You are thinking of our sales expense budget, and figuring how it will look when we try to squeeze an export department and a foreign sales campaign out of it. To get around to my point of view you must quit thinking about that. Think about the order from Texas, and how you would deal with it, and apply the same principles to Ceylon. That's the way to begin thinking about foreign trade. By and by we shall get to the export department, and the foreign sales campaign, with a sales staff abroad and branch houses, and foreign advertising, and all those things that call for a budget. But not in the beginning. That is to say, not in a successful beginning.

"Don't start too big, or too fast. That's the wisdom I've learned by experience and by observation. Most of the big concerns in the exporting game didn't jump into the thing headforemost, with a fullfledged exporting department. They picked up a foreign or-

der here and there, they gave it careful attention, and by correspondence perhaps they built a structure of good will and more orders on the basis of that first one; gradually they worked up enough trade or enough assurance of trade to warrant the sending abroad of a

representative, and eventually the

business was so surely there that

it justified the organization of a

foreign sales force and even the establishment

of branches abroad. Or it may be that the

initial order led to securing a foreign agent,

or to the development of business through

commission houses. Sometimes the first busi-

ness just walked into the home office, as your

inquiry from Ceylon did this morning. In

other cases it came in response to advertising,

or to following up the foreign trade opportu-

nities published by the United States Depart-

ment of Commerce. Sometimes it was the

result of a visit to this country of the foreign

merchant or his representative.

"The export merchants, both those who place orders here in the United States on commission for foreign buyers and those who purchase American goods outright for resale abroad, are important factors in our foreign trade machinery, and furnish the medium for a great volume of exporting. We might easily get our goods into foreign markets through

some of these middlemen, many of whom are long established, have ably manned organizations both here and abroad, and know the exporting game throughout. Dealing with these export houses is pretty much the same as dealing with jobbers and wholesalers and commission houses in the domestic trade.

“Trade is trade, Peter, the world over. It results from my having something that you want, and you having something I am willing to take in exchange. More often than not you, or the buyer, will offer a promise to pay, rather than an actual payment. And that brings in credit, which ought to be based on definite information as to the resources and reputation of the buyer. All of which is A B C stuff, but is part of my speech, so you’ll listen to it.

“Credit isn’t a matter of distance, or race, or color of skin. I know a Chinaman in Shanghai I’d trust just as far as I’d trust the governor of the Federal Reserve Bank. Because a fellow is out in the South Seas and spells his name in a heathenish way is no sign that he isn’t honest and won’t meet a draft when it’s due.

“This fellow in Ceylon ran across one of our spring-hinges when he banged in or out of the consulate one day, and was attracted by it. Perhaps it was the strength of the spring

that impressed itself on him, as he pulled the screen-door open. Perhaps it was the artistic design of the article that first caught his attention. He was a dealer in these things. He was easily impressed with its good qualities, and instinctively compared it with the cheap German hinges he had carried in stock or the heavy English affairs. At all events, his attention was attracted, his interest stimulated, his desire created. He stopped and examined the hinge. He found the trademarked name on it, and our company name and address. So he sat down and wrote us a letter asking us to be so kind as to sell him one hundred and twenty dozen of these hinges, and to send him our catalog so that he could see what other products of ours he might handle to our mutual benefit. The article, picked up by some consul or his assistant here in America and carried out there to hang a Ceylon door, had sold itself. It had performed all the selling steps that the most expensive salesman could perform. It got an order and sent it in to us.

“You see the point, don’t you, Peter? We are selling locks and screens and spring-hinges, not just selling them to New York, New Jersey, Pennsylvania, and other Eastern territory. We are selling them wherever we can sell them, because our business primarily

is to sell these products, and not simply to supply specified territory. You admitted that you wouldn't hesitate to fill the order from Texas, though that is outside our scheduled territory."

"Of course I'd look into the credit rating of the Texas firm," interposed Smith. "I'd satisfy myself thoroughly as to the standing of the buyer."

"Certainly. And you'd do that in the case of Ceylon, too. It's not such a big job, getting foreign credit information—

though I'll admit it isn't always as *The Credit Problem*

simple as handling the average credit inquiry here at home. The mercantile

agencies operate in foreign lands as well as in America—and in the little-known lands as

well as on the continent of Europe. There are many export associations in the United States which have credit information on file. Moreover, our friend Abdul has given us two references in his letter. Surely Dun or Bradstreet can tell us whether the Oriental Bank of Singapore and Burr & Unwin of London are reputable, and if it says they are why I'd be willing to spend a little money cabling them just to find out whether Abdul Murangee is a bluff or a faker or the real thing. The cables and the extra attention required might eat up all the profit on this order, but I would

have my mind fixed on possible future orders from Abdul Murangee and from other Abduls in other parts of the East, and I think I would not be wrong in calculating that the future return would more than repay me for the little extra expense of time and money now.

"The differences and difficulties of foreign trade, as contrasted with domestic trade, are all minor differences and difficulties of mere technical detail. The selling appeal must be varied to suit the customs, habits, tastes, and preferences of the particular people; but that is true of sales campaigns here at home. You know a sales message that will pull in San Francisco or Denver will frequently fall flat in Baltimore or Boston; that the Louisiana territory cannot be handled in the same way that Connecticut is handled. Credit standards and credit terms vary in different trades and with different geographical sections; and the handling of foreign credits may involve more risk and expense than the handling of credits here at home where we are working under familiar laws and in a common language and with common trade practises. But here again the differences are on the surface, and may be solved by the application of the same principles which succeed in domestic credits. Foreign business calls for expert acquaintance

with ocean rates and marine insurance, as well as with consular regulations and customs requirements. Moreover, foreign business carries a man's operations into lands where strange and unfamiliar laws operate, and it may call upon him to transact business in a foreign language. But these difficulties can be overcome. The technicalities of foreign trade can be learned, just as bookkeeping can be learned, just as engineering can be learned. And there are so many sources of foreign trade information today—such as the government bureaus and the various commercial organizations—that a man can easily get detailed data on practically every market and every exported line."

"What I can't see, though, Mr. Beverly, is the reason for getting into this business while we've got a big home territory yet unworked," objected Smith.

"Well, there are several reasons," answered Beverly. "I mentioned one back in the early part of this conversation. The foreign markets are open to us now, as never before, and probably as they never will be again. Mainly as a result of the war. We've got a better chance to get into certain markets now than we have ever had. Our patents protect us here at home, and besides I'm willing to put back into this business everything it makes for

the next several years, and let it grow just as big as the demand for our goods will permit it to grow. And by demand I mean both home and foreign demand.

“Another reason is the fact that foreign trade is a great stabilizer of business. The manufacturer who sells abroad can count on a steady demand, for if business is slack in one market it is generally strong in another. A big, stable business means increased economies in production and distribution.

“Another reason is the vogue of imported goods. An English imported hat is the thing over here, and yet in London you find American hats are very popular among the natives there. You know how our people run after the imported product in every one of a dozen lines I might name, though it can be proved that the American competing line is equal and in many cases superior to its higher-priced rival from abroad. There are some English locks that have always been preferred here to our locks, simply because they carry with them the glamor of that marvelous adjective, ‘imported.’ Well, I propose that we take advantage of that fact by selling our locks in foreign countries, where our goods too can qualify as ‘imported.’

*Why Not Stick
to Domestic
Trade*

"Finally, Peter, I know nothing in the world so broadening to a business man as foreign trade. You simply have to be alive to the hidden economic forces which control trade, you have to keep abreast of the current of business events, you have to get the international point of view. In domestic business a manufacturer can ignore many outside factors, keeping his eye only on the markets and on his competitors, and make a tolerable success. But in foreign trade the markets are world wide, and his competitors are not other American manufacturers working under like conditions, but British or perhaps French or German manufacturers whose producing and selling conditions may vary from his in dozens of ways. Protective tariffs, subsidies, preferential regulations of various kinds, differences in trading facilities—all these have to be taken into account.

"Your foreign trade activity, moreover, is part of the international movement of commerce, and affects the welfare of your nation. You are not just another manufacturer in foreign trade; you are an American exporter, and as such find yourself working in cooperation with your government and with all other Americans who are going into foreign markets. You represent not only your company but the American good name, American in-

dustry, the American nation. This sense of nationalism is a distinct gain to breadth of view and growth in business power. Even if it were not profitable to us in a direct way, I should say let us pick up as much overseas business as possible simply for its influence on our domestic business. It'll make us stronger business men—and I'm confident that it will pay steady profits on its own account."

"I can see that we might get some worthwhile trade in civilized countries," answered Smith, "but I can't see the value of trying to cultivate out-of-the-way places, where life is primitive and mostly naked, and human wants and spending money correspondingly scarce."

"A good point," returned the old manufacturer. "We've got to use at least common sense in picking our markets abroad, as well as at home. No use trying to sell palm beach suits to Esquimos or limousines to the Fiji Islanders. We

*Selections of
Markets*

must go where the demand for our goods exists, either actually or potentially. It's this letter from Ceylon that injected that little country into our discussion. I don't know that I'd have picked it as a market to cultivate for our line.

"And then," continued Beverly after a pause, "I don't know but that I should. Ceylon's no such naked-Indian banana-fed sort of

country as you probably think it is. I was through there several years ago; and do you know, Peter, the most all-fired spectacular advertising stunt I ever saw pulled off was in Colombo, Ceylon, and perpetrated by a native merchant? It was a hum-dinger.

"The native had been agent for a German typewriter company which had taken advantage of a loosely-written contract to 'do' him on several points. Finally, just as they had refused to make good on some defective machines, the salesman for a well-known American typewriter company arrived in town, and of course the merchant was ripe for such a visitor. It didn't take him long to sign up a contract with the American concern, and at once he began to plan for the introduction of the new line. I met the American salesman later, and he told me that the scheme was entirely of the merchant's own devising. I leave it to you if the stunt was not worthy of O'Sullivan's Heels or Spearmint.

"A religious ceremony was scheduled for the following Saturday, and it brought thousands of people from the surrounding country into town. In addition the merchant circularized his customers and by handbills announced an interesting parade for that day, and invited them to it. When the time arrived the

*Introducing
a New
Typewriter*

streets were lined with people, and down the main thoroughfare came a procession of five elephants. Mounted high on the elephants were the German typewriters, strapped on their packing cases, in plain view of everybody. In all there were thirty of them—the remainder of the merchant's old agency stock. Highly-colored banners were draped from the elephants with such slogans as these: 'Not good enough for Ceylon,' 'When we find something better, we sell nothing else,' and 'We don't force our mistakes on our customers.' The elephants paraded through the principal squares and streets and were then headed to the water front, followed by a mob curious to see what was going to happen. Well, something did happen. The elephants were lined up at the dock, and typewriter after typewriter was hurled into the harbor, until all thirty were disposed of. On top of that performance, the merchant announced that every German machine he had sold would be gladly exchanged at fifty per cent of its purchase price for one of the American make. Later on the redeemed machines were the material for another sensational advertising coup, and were auctioned off as scrap metal. The American salesman said that the stunt cost little more than \$500, and that the business which followed more than justified it."

"It certainly was some stunt," agreed Smith, admiringly.

"It's typical," said Beverly. "They are wide awake over there. They are themselves producers, exporting not only tea, cinnamon, rubber and such things, but also cabinet work and other products of their craftsmanship. I remember being told when I was out there that in the preceding ten years their exports had increased one hundred per cent—just exactly double. And I remember also some statistics which showed that their per capita of imports was only four or five dollars under that of the United States—and several times that of Mexico in normal times. No sir, it isn't a bad place to start with, Peter.

"My suggestion would be to look up the credit of this fellow Abdul, and see if he's any good. In the meantime find out what you can of Ceylon, its commercial customs and laws—especially its laws regarding patents and trademarks. Also look into this matter of freight and insurance rates, and figure what we can quote Abdul on one hundred and twenty dozen of those spring-hinges. Our bank ought to be able to tell us something about financing and collecting facilities between here and Ceylon—even if it can't turn the trick itself, it can tell us of some

*Following
up an Export
Inquiry*

bank or concern that can. The thing's worth looking into, Peter."

"Yes, I am convinced that it is," answered Smith. "That elephant stunt gets me. I can just imagine our XDRA trade-mark figuring in some wild oriental publicity scheme sometime."

"At least it's a starter for our foreign trade thinking," concluded the old manufacturer. "Even if Abdul doesn't pan out, let's begin to figure on overseas business and let's begin to get a little of it. I've got no prejudice against mail-order business, against judicious export advertising when we're ready for it. And don't think we've got to set up here an elaborate export department. There is such a thing as a built-in export department—an export sales organization built right into the general sales organization, and growing, you might say, out of the domestic sales organization. It's the best kind, in my opinion, for a small concern. It's the kind you can build up right here in your own splendid sales department, Peter, beginning with old Abdul—if he pans out. I hope he does."

"So do I," answered Smith. "You've given me a hankering for this foreign trade game. I want to get into it."

II

Personality in Foreign Trade

HERE is one big factor in foreign trade that Mr. Beverly did not emphasize—perhaps because it was not necessary in talking with his live-wire general manager. That factor is personality. Everywhere in business today the human element has taken on a new value. Nowhere is personal adaptation to the job more necessary to complete success than in foreign trade.

Foreign trade work covers a broad scope of activities and interests, ranging all the way from those of the high-salaried executive at the head of the enterprise to the routine duties of export shipping clerk. Under its general grouping are embraced such varied functions as those of the importer, his office staff, and buyers abroad; the export house executive, buyer, and merchandiser; the manufacturing exporter and his export departmental heads and assistants; the traveling salesman; the shipping expert; the international banker; the credit man; and the govern-

*Wide Range of
Foreign Trade
Activities*

ment investigators, representatives, and statisticians of foreign trade. It is not only the professional export and import houses and the manufacturers engaged in direct exporting who are to-day interested in foreign trade, but banks, steamship companies, railroad companies, express companies, chambers of commerce and other commercial organizations. All of these are demanding men trained in the technique of foreign trade practise and possessing certain personal qualities especially needed in foreign trade work.

The demands of the export house and of the manufacturer engaged in exporting are the most conspicuous not only because such concerns are numerous, but because with them the export enterprise is a primary one. It involves actual contact with foreign markets. They have the task of seeking and winning overseas customers. The qualities which they find important to success in this field may be taken as the qualities which will serve a man in any foreign trade capacity—be he salesman abroad or correspondent in the home office, be he credit man or export traffic manager. They are the qualities that go into the making of the successful foreign-trade executive.

Various standards have been used in selecting men for foreign trade work. In times past,

the new exporter's first thought was often directed toward getting a man familiar with the language of the country. Teachers of Spanish would be lured out of high schools and after a brief preliminary instruction in the line of goods would be dispatched to South America with a list of prospects and a bag of samples. Or they would be placed in charge of export correspondence in the home office. Of course it was a rare thing for such "salesmen" to make good.

*The Question
of Foreign
Language*

It is generally recognized today that knowledge of the goods and some experience in the art of salesmanship are the first essentials even to an overseas salesman rather than knowledge of a foreign language. And for export men in home offices the value of knowing foreign tongues has clearly been much exaggerated. Of course it is an advantage to know the language of the people you are dealing with. Direct contact is always better than contact through a translator, and knowledge of the language is an open door of greater knowledge of the habits, customs, and distinctive traits of the people who speak the language.

The other extreme is that represented by the manufacturer who chooses his most hustling and aggressive salesman for the foreign assignment, justifying his selection with the

*Storming
Tactics not
Wise*

argument that what will win the foreigner is "progressive Americanism," plenty of "pep

and push," to quote some of the terms used to describe these exponents of unadulterated nerve. Their idea seems

to be that storming tactics will overcome all obstacles—that the foreigner is really in need of enlightenment along modern business lines and can easily be educated to American methods.

A recent traveler to the Orient tells of a salesman whom he met on a coastwise ship off China. The salesman had recently come over to represent an American firm. In the home market he had distinguished himself as a hustler, and he had been sent to China apparently in the expectation that his aggressive methods would take the natives by storm. At the first meal on the ship, the salesman elbowed his way to the captain's table, and proceeded at once to impress his personality upon his neighbors. Across the table sat a Chinese merchant, arrayed in the flowing silk robes of his class, and the salesman immediately sized up the merchant as a possible prospect. Without waiting for an introduction, he launched into conversation, using the pidgin English that he had picked up in his limited intercourse with Chinese agents and small merchants. To his great surprise and confusion—

and the amusement of others at the table—the Chinese merchant replied with the greatest courtesy in perfectly-phrased English. The traveler said he learned later that the Chinese merchant was a graduate of Harvard, a master of several languages, and a man of considerable importance and influence in the business community.

Of course this type of salesman is one to be kept strictly at home, or, better still, one that should never be permitted at large either in foreign or domestic trade. Perhaps to a limited clientele of rough-and-readies of like character, such a man might appeal as an effective merchandiser, but in the foreign field his efforts are not only incapable of winning trade but are actually destructive. The bungles, the misdeeds, the offenses committed by the representative of a firm here at home may be largely offset by the firm's general reputation and good will, its advertising, and the knowledge which customers have of its business through direct channels. But in the foreign field the representative is usually the only direct channel which exists between the exporter and the overseas customer. The customer judges the firm, its goods, its services, its integrity, its attitude, by its representative. A salesman guilty of shady practises, or of debauchery, or of indifference or discourtesy, is

a worse enemy than any competitor or competitor's representative could possibly be.

The personality of the foreign tradesman is thus a business asset of the highest importance.

Personality, a Business Asset Not only must he possess such basic traits as honesty, energy, self-control, but there are certain outstanding qualities of mind and character which he will find in daily demand in his business.

What are these qualities? What personal characteristics should a man cultivate in preparation for big success in the foreign trade field?

In answering these questions, it should be said at the outset that any foreign trade executive is first of all an all-round business man. His knowledge of merchandise sources of supply and of trade conditions will be more comprehensive and more accurate than that of the domestic trader; but the qualities which make him a good foreign tradesman would serve also in any merchandising enterprise, they would help him in his financial operations were he a banker, or in his administrative tasks as the executive of a railroad, a factory, or other industry. Similarly, the outstanding traits of an industrial executive or of a banker would be useful to a foreign trade executive. With this qualification, that all essential quali-

ties of business character are needful and helpful to the man in foreign trade as well as in every other department of business, we can distinguish certain characteristics as preeminent and conspicuous in the makeup of the successful American foreign tradesman. These qualities are:

1. Knowledge. —
2. Resourcefulness. —
3. Responsibility. —
4. Adaptability. —
5. Breadth of Interests and Sympathies.
6. Americanism. —

The foundation for all constructive work in foreign trade is broad KNOWLEDGE—a knowledge that is both comprehensive and specialized. The definition of an educated man—one who knows something of everything and everything of something—may be applied also to the foreign trade executive. He should be master of one field of knowledge, that of his own line of merchandise and the technique of its trade, but in addition he should know something of everything that comes within the range of business interest—and this range is very much broader in foreign trade than is the case in domestic trade.

*Knowledge
the First
Essential*

Knowledge of business technique is of

course highly important. The foreign tradesman must know the practise of the trade, not only in his home market but also in the markets abroad. This was strikingly brought home in the case of a certain western manufacturer who during the war picked up some export opportunities in Australia and sold several orders of goods to customers down there on an "F.O.B. New York" basis. Understanding this term to mean that his price included transportation to New York, after which all charges were to be cared for by the Australian customers, the manufacturer made his price and shipped the goods accordingly. The Australians understood "F.O.B. New York" to mean "F.O.B. ship in New York." When they found that they were compelled to pay cartage and other expenses incidental to transferring the goods from the freight car to the steamship, they were much incensed, and the good name of all American exporters suffered as a result of the ignorance of that manufacturer. For of course the Australians were right. In export trade, "F.O.B. port" universally means "F.O.B. ocean carrier."

But the knowledge which a successful foreign tradesman must have includes far more than merely a technical knowledge of the principles and methods of exporting and importing. He needs sound understanding of the eco-

nomics of industry and trade, he needs a grasp of geography beyond that common to the domestic trader, he needs to know racial customs, national traits and characteristics, the intimate things that enter into international relations. Walter F. Wyman tells of a traveling salesman who attributed his success in selling a certain customer to his knowledge of Robert Louis Stevenson. The customer was a Stevenson admirer, and because the salesman could talk with him of his beloved author the salesman won an entry to his confidence and good will and made a sale that others had found impossible. The foreign customer especially is appreciative of little points of knowledge which the foreign representative may have in common with him; and nothing wins so ready and favorable a response in his mind as the impression conveyed by a broadminded foreigner, internationally informed and capable of discussing intelligently the subjects in which the customer is interested—outside subjects as well as those primarily of business.

With broad and practical knowledge, the successful foreign tradesman possesses also the ability to use this knowledge effectively in meeting new or untried situations. That is to say, he is RESOURCEFUL. He has in the right combination those two indispensable qualities of the good busi- *Resourcefulness*

ness man, imagination and judgment, developed in an unusual way.

Shortly after the armistice in 1918, an American export house received an order from a certain foreign customer calling for a large shipment of a certain commodity. The export house considered the terms at which it could sell, and discovered that there was an embargo against shipment of such goods from the United States. The matter was taken up with the authorities, but without success. There seemed no way of getting the goods out, and the export executives were about to give up, when an associate from a branch office happened in and was told of the problem. He pondered a few moments, and then in an instant suggested a way out. It was simple, so simple everybody else in the office mentally kicked himself for not thinking of the thing before. The suggestion was that the export house buy its goods and ship them from Canada, where no embargo existed.

The shutting off of European and Asiatic supplies of tin and other products in the early months of the world war, called for the exercise of the same sort of resourcefulness on the part of American importers of these products. New sources of supply had to be discovered and developed, and it took imagination tempered by business judgment to solve

the problem. The utilization of tin deposits in Bolivia and the development of the soya bean as a source of supply for vegetable oil are two examples of many that might be named, illustrating the resourcefulness of our overseas traders.

If resourcefulness is an essential trait of the foreign trade executive at home planning the overseas campaign and directing it, it is even more an essential quality of the representative out in the field who must almost daily adjust himself to new demands, new opportunities, new limitations. A manufacturer's agent in Ceylon saw an opportunity to exhibit his line of foreign products in the All-Ceylon Exposition, a fair which is usually confined to native products. There was no time to discuss details by wire with the distant manufacturer, so the agent went ahead on his own authority and spent \$5000 on a special booth and in distributing samples. When the report went in to the manufacturer, it was accompanied by the largest order ever received from that market, and the manufacturer was glad to O.K. the expense bill and commend the resourcefulness of his representative.

Would the manufacturer in the instance just cited have authorized his representative to go ahead and spend the \$5000 had he been cabled for instructions? That is a question affected

by many factors, but in general it may be said that the manufacturer's answer would depend on his knowledge of the agent's *Responsibility* judgment and responsibility. Resourcefulness alone is not sufficient. The sharper, the tricky trader, the fly-by-night adventurer is resourceful. But he lacks RESPONSIBILITY, and it is just this quality of rugged honesty joined to an ability to assume authority and make decisions that distinguish the man who is most effective in foreign trade.

The fact that in foreign trade large interests are so constantly intrusted to individuals makes this faculty a most important one. The foreign tradesman must be absolutely loyal to his firm, which means honesty in a sense not needed at home. In the case of the overseas salesman, he is frequently separated by thousands of miles from his home office and from all direct supervision. I have in mind a certain representative assigned to a territory 5000 miles distant from his New York office. To reach him by cable has required from 10 to 13 days. That man carries large letters of credit, and beyond that he has authority to commit his firm in numerous ways. He could absolutely ruin the business, if he were disposed to be dishonest. Of course he was not chosen on the spur of the moment, but was selected for

his honesty, his strict integrity, his unfailing loyalty to the house, as well as for his practical knowledge of export salesmanship. The export man must be above all things faithful to his house, to its goods, to its good name—a jealous guardian of its character as well as a zealous exponent of its goods and services.

The successful executive or representative in foreign trade is ADAPTABLE. He has the knack of getting along easily with other people. To use a Spanish expression, he is regarded as *sympatico* by many different kinds of people. He knows how to make a favorable first impression, and he wears well. He is a business diplomat, tactful, courteous, with a real respect for foreign peoples, and patience and understanding in dealing with them.

The blundering of the foreign salesman in the incident related on page 24 is a striking example of how not to do it. The tactlessness of his approach to the Chinese merchant lay in his complete disregard of the other's individuality. He had no conception of a Chinese as educated, as cultivated. He had found pidgin English useful in intercourse with other native merchants, and with no attempt apparently to size up the new prospect and adapt himself to the latter's personality, he launched into his reckless conversation with

results as related. The adaptable man knows that different personalities call for different methods of handling, and he varies his speech, manner, and conversation accordingly.

There is one quality that the adaptable man always retains everywhere, and that is a respect for foreign peoples. An important American export merchant who was recently expanding his organization in the Far East, said to me, "I'm looking for a man to represent me in China, one who has a real respect for the Chinese people." There is no place in foreign trade for the fellow whose attitude toward foreigners is that of the junker type who refers to a Chinese as a "Chink" and to an Italian as a "wop" or a "ginney."

The adaptable man is keenly sensitive to distinctions. For example, he doesn't make the mistake of addressing a Chinese as a Japanese. He doesn't class a Brazilian or an Argentinian under the more general heading of South American. Most men are proud of their nationality, and are as sensitive to imagined slights here as they are to mistakes in the spelling of their names. Nor does the tactful man, in conversation with Latin-Americans, refer to himself as American; in their eyes all the inhabitants of both continents are equally Americans, and the citizens of the United States are at most entitled to call them-

selves North Americans. The adaptable man is careful to observe the customary courtesies, forms of greeting and farewell, and polite practises of a foreign people.

The adaptable man, therefore, is simply a good diplomat. He not only is careful to observe and avoid offenses, but he seeks also to win good will by a proper attention to, and consideration for, the interests of others.

Adaptability in foreign trade usually comes with BREADTH OF INTERESTS AND SYMPATHIES.

The successful foreign tradesman,

whether he be in the home office

*Breadth of
Interests and
Sympathies*

serving in executive or routine ca-

pacity or out in the field in daily con-

tact with customers, has an interest in what is happening in the world outside. He has a healthy curiosity regarding markets, economic conditions, racial characteristics, current events everywhere. It is not so much the academic interest of the student, as it is the human interest of the man of affairs. "The merchant whose operations extend to various countries," said Andrew Carnegie, in an address delivered some years ago, "must know these countries and also the chief things pertaining to them. His view must be worldwide. Nothing can happen of moment which has not its bearing upon his actions: political complications in Constantinople, a monsoon

in India, the appearance of the cholera in the East, the supply of gold at Cripple Creek, the appearance of the Colorado beetle, the fall of a ministry, the likelihood of arbitration compelling settlement—nothing can happen in any part of the world which he has not to consider."

No man who is content with small horizons, whose mind is of the local or parochial type, undisturbed by a great eagerness to know and an ability to digest and relate new facts to his business, is likely to rise very far above routine in foreign trade work. He may be only a shipping clerk in the export department, or an export sales correspondent; if he is of the true type of foreign tradesman he will have this broad sympathy and worldwide interest in affairs, and an ever-present sense that "nothing can happen in any part of the world which he has not to consider."

But above all, the man who makes a success of our foreign trade must have a sturdy

Americanism AMERICANISM. There is such a thing as national morality, and the man in the foreign field who sloughs off his home standards and debases himself to whatever may be the prevailing level of his customers, rarely ever succeeds. Permanent trade is not built in that way. An interest in things outside the United States does not call for sur-

render of one's own code, nor is it necessary to belittle one's own nationality in order to appreciate that of a customer. Perhaps no people have been so universally successful in foreign trade as the English people, and yet none have more sturdily upheld their personal standards and national traditions among alien customs. The Englishman may be resident in some remote place of Asia or Africa, with all of his surroundings foreign, but he is still an Englishman and never forgets it.

Some of the elements entering into Americanism, as we interpret it here, are: (1) Personal independence, as opposed to obsequiousness, (2) Absence of caste feeling—the ability and readiness to meet every man on his own level, (3) A higher respect for women than is common in most foreign countries, (4) A high standard of personal industry and efficiency, (5) A real affection for the home country.

Any man residing in a foreign country is a prey to continual influences tending to destroy his true Americanism. He has to fight constantly against the influence of foreign surroundings, if he would keep his nationality undiluted. Some sink in the scale of morality, some become hypercritical of their home land and its institutions and people, some are affected to the extent that they come to care

more for the foreign land of their residence. An extreme case is that of some Americans who were resident in Germany during the war, who allowed themselves to drift entirely away from American thought and sympathies, and in the end were actually more bitter against things American than the native Germans were.

The men who are going to carry forward our American foreign trade interests, and up-build it on the scale which present conditions forecast, will have a sense of their own nationality as well as that of their customers. They will be steadfast to uphold American standards and ideals, and at the same time will possess that respect for and consideration of the institutions, customs, languages, and traits of other nations which will make them welcome in the markets of the world.

The foregoing discussion of the qualities peculiarly necessary for the man who is destined to succeed in foreign trade work has perhaps raised in your own

How Do You Measure Up

mind the natural questions: How do

I stand in relation to these qualities? How well fitted am I to make a real success in foreign trade? Possibly you have, half-unconsciously, been making a rough estimate of your own qualifications as you have been reading this chapter. If so, I believe you have acted wise-

ly. For there is not one of us who cannot get great profit out of a searching cross-examination once in a while to find out why we are not moving ahead more easily and more rapidly.

Within the last few years experts in the science of psychology have worked out new and helpful methods for enabling each man to check himself up, to determine for himself his own points of strength and weakness; in a word, to measure himself not merely in vague and general terms, but by scientific and fairly accurate self-analysis. With the help of one of these experts the series of self-tests which follows has been prepared. It is not required as a part of this Course that you should apply these tests to yourself; but I should strongly recommend that you try them and I believe that you will find the exercise one of the most interesting and most profitable you could undertake.

Naturally the value of this self-examination depends upon the sincerity of your answers to the various questions and the strictness with which you hold yourself to account. Some of the tests are to be made against time; provide yourself before you begin with pencil and paper and a watch. It is suggested that you jot down your answers either in the margins of this text book or on a separate piece of paper.

A key to the tests appears on page 169, but

of course no reference should be made to it until you have gone through the entire series, answered all the questions and made a note of all the information required. Then, you will be ready to turn to the key, check yourself up and find out what percentage rating you have given yourself on each of the six essential qualities of a successful foreign tradesman.

SELF-TEST ON KNOWLEDGE

1. Of what country is Callao the port?
2. What is the principal language of Haiti?
3. What is the unit of Australian currency?
4. What is the largest city in Latin-America?
5. Which is the world's greatest steamship lane?
6. How many pounds are equivalent to fifty kilos?
7. What copies of the ocean bill of lading are negotiable?
8. In what product is the Baku district of Russia particularly rich?
9. For what words does the abbreviation "E. & O. E." stand?
10. What is the proper English equivalent of the word "chop"?
11. For what expression are the letters "F. A. S." an abbreviation?
12. What is the meaning of the letters "C. I. F." as applying to a shipment?
13. What is the value of a franc in United States currency at par of exchange?
14. From what one city could the three Scandinavian countries probably be most conveniently covered?
15. (a) What is approximately the average time by steamer from San Francisco to Yokohama?
(b) From New York via the Suez Canal?
16. What is an export forwarder?

17. Name the four countries which were the principal contenders for Latin-American trade before the World War.

18. When drafts on New York payable in American currency are offered for sale in foreign markets, what term is commonly used to designate this type of offering?

19. To what United States government office would you apply for information respecting tariff regulations in Brazil?

20. What is the term used to indicate refund of duties on imported materials, the products of which in manufactured form are exported?

21. What country is the principal source of supply in the Western Hemisphere for rubber?

22. What is the maximum weight of a single package of small articles which may be safely shipped to the interior of Chile at a point not served by railroad?

23. What are "specific" rates of duty in a customs tariff?

24. What is the insurance term used to designate distribution of loss in case portions of a ship's cargo are jettisoned for the safety of the ship?

25. When a draft against a foreign customer is sent to a bank with the ocean bill of lading and other necessary documents attached, how is the draft marked to indicate that the documents are to be delivered against acceptance of the draft?

Consult the Key on page 169 and credit yourself 4% for each answer which you have correct.

Rating for Knowledge.....—%

SELF-TEST ON RESOURCEFULNESS

1. Assume that you are in a manufacturing business in Chicago. A gentleman calls on you unexpectedly one morning without formal introduction and tells you that he is a well established merchant in Santiago de Chile who has been referred to you by the local office of the United States Bureau of Foreign and Domestic Commerce. He looks over your line of products and places an order with you amounting to about \$500 for imme-

diate shipment. Upon your requesting references and information as to his credit standing, he seems surprised and somewhat piqued that this question should be raised in his case, but mentions the names of one New York and two London firms from whom he has bought heavily in the past, adding the explanation that most of his purchases in previous years have been made through European houses having branches in Chile. You do not wish to press the inquiry for fear of offending him and losing the order, but tell him that you will let him know before he leaves the city, late the following day, whether you can arrange to make the shipment. In the meantime you desire to collect all the information you can get within twenty-four hours regarding your prospective customer.

Name five possible sources from which information may be obtained by telephone or telegraph.

Consult Key on page 170 and credit as instructed—%

2. A manufacturer of motor trucks in New York receives a rush order for 100 trucks to be delivered in Toronto, Canada, within thirty days. The order is given on condition that the trucks be delivered on or before the date named. The manufacturer is in position to assemble and ship 100 trucks immediately, but there is a serious car shortage and railroad freight service is badly congested with no prospect of early relief. What measure would you adopt to clinch the order and insure delivery?

Consult Key on page 170 and credit 20 per cent or less according to your *best judgment* —%

3. The following test is to see how resourceful you are in reacting to suggestions. It is to be performed within a time limit. There are eight statements to be checked up and the time allowance for the entire test is three minutes. Do not read over the questions before beginning the test. The problem is to check off the statements rapidly as you read them, marking a "T" in front of each true statement and an "F" in front of each that is false. Put your watch in front of you, open, and time yourself strictly.

- a. The more we sell abroad and the less we buy abroad, the more secure will be our national position in world trade.
- b. The country which has the lowest production costs is certain to secure the most profitable markets.
- c. The stability of industry and of labor conditions in a foreign country vitally affects its worth as an export market.
- d. The success or failure of a foreign trade venture is dependent upon the character of the sales campaign.
- e. Peoples living in the same latitude and under the same climatic conditions have the same merchandise requirements.
- f. The business of a manufacturer of axes who exports 25,000 axes a year without showing a profit on his export business, is not necessarily commercially unsound.
- g. Foreign investments of capital are among the most potent factors in directing the movement of international trade.
- h. South Americans have frequently bought from Europe, rather than from the United States, because of the greater regularity and reliability of the European steamship lines.

Consult Key on page 171 and credit yourself 40 per cent if you have checked all correctly. Deduct 10 per cent for each one that you have wrong. By the law of averages, a man would be expected to mark at least half correctly, so if you have missed four or more, credit yourself 0.

Credit.....—%

4. This again is a test of mental quickness and sureness of decision, and must be performed within a time limit. First, look over the list of words printed just after the following paragraph. Then go over the paragraph, inserting the words which in your judgment are

necessary to complete the sense. Time allowed, four minutes.

"The desirability of _____ for foreign business is made acute by the importance and almost the necessity of having a _____ line of products. The manufacturer then is able to supply the _____ requirements of a customer and it puts him in a _____ position before the customer. It also enables him to keep his _____ reasonably _____ with _____, and yet not have them _____, as the smaller fellow would have to do, not being able to _____ out the ups and downs in the _____."

single, competition, cooperation, stocked, figure, varied, reliable, overstocked, warehouses, customers, trade, exchange, single, empty, entire, younger, goods, favorable, unlimited, get, filled.

Credit yourself 2 per cent for every blank you have filled in correctly. Key is on page 172.

Credit.....—%
Rating for Resourcefulness....—%

SELF-TEST ON RESPONSIBILITY

Can you truthfully say

1. That you faithfully devote the resources, energies, and abilities which you were assumed to possess when you were employed to promote the interests of your firm according to the conditions or implications of your agreement?
2. That you at all times try to keep yourself physically and mentally fit for efficient work?
3. That you are always prompt, truthful and explicit in carrying out instructions, in making your reports or in connection with other duties requiring similar qualities?
4. That you are always on the lookout for possible economies and that you particularly avoid incurring unnecessary expenses?

5. That you take all reasonable precautions to safeguard your firm against loss through delay, damage, breakage, and so forth, by being careful and by giving all information at your command which might aid in proper packing, routing, and so forth?

6. That you always do your best to secure all possible legitimate information concerning markets, prices, competitors, modifying conditions, and so forth, which may be of help to your firm?

7. That you invariably keep inviolate the confidential trade knowledge, plans, and so forth, that your firm may possess?

8. That you protect and further in every legitimate way the indirect interests of your firm, its members, employees, and customers, and of trade relations in general?

9. That you make it a rule never to criticise destructively your superiors or associates, or to gossip about them in any place?

10. That as an employer or a department executive you extend to your employees and subordinates the same considerations of loyalty that you expect them to extend to you.

Credit yourself from 0 to 10% on each of the above questions according to your best judgment.

Rating for Responsibility....—%

SELF-TEST ON ADAPTABILITY

1. Do you find it easy or difficult to warm up to other people, to engage in conversation with strangers, and to deal naturally with both subordinates and superiors?

Grade 20 to 0 according to your judgment—%

2. If you were the representative of an American exporter in the following situations, which of the four lines of action indicated in each case would you take?

I. A small importer in Bombay tells you that the shipment of fine leather bound books received from your firm is unsalable because of mildew, the packing having been insufficient to protect its con-

tents against the extreme moisture of a tropical ocean transport.

- a. Promptly offer to take the shipment off his hands.
- b. Show him that your firm can hardly be held responsible for atmospheric conditions in the tropics.
- c. Offer to adjust on a basis that shall secure him against loss.
- d. Point out to him that his shipping instructions should have been more implicit so as to have guarded against such damage.

Grade 20 to 0 according to Key on page 172—%

II. You are seeking to reopen trade relations with a Russian firm who were profitable customers before the War, but who since have shown antagonistic feeling toward American goods.

- a. Indicate appreciation of the customer's point of view.
- b. Show the customer wherein his point of view is wrong.
- c. Decline in any way to discuss the point.
- d. Hold that political animosities of the past cannot be allowed to interfere with the necessities of present trade.

Grade 20 to 0 according to Key on page 172—%

III. A Brazilian customer has placed a rush order with your firm for a large quantity of certain goods as per sample submitted with your quotation six months previously. You are now unable to supply the required quantity of goods to match the sample exactly.

- a. Hold order and write for further instruction, stating that you are sending sample of goods which can be supplied.
- b. Send the full quantity of the nearest substitute and write, explaining the situation.

- c. Cable that you are shipping the quantity on hand and requesting permission to substitute for the balance.
- d. Write expressing your regret that you are no longer in a position to handle this business.

Grade 20 to 0 according to Key on page 173.....—%

IV. While you are in a foreign country in the interests of your firm, a very important customer insists upon your coming to visit him socially on the occasion of the annual races which rank as a national event. You must decline because acceptance means a week's absence from the city where you are working and involves heavy expense.

- a. Express your pleasure, but explain that the heavy expense would have to be borne by you personally and that you cannot afford it.
- b. Explain that you do not in conscience approve of racing.
- c. Show that your absence for a week would interfere seriously with your business engagements.
- d. Decline without explanation, but express appreciation of his courtesy.

Grade 20 to 0 according to Key on page 173—%

Rating for Adaptability.....—%

SELF-TEST ON BREADTH OF INTERESTS AND SYMPATHIES

Credit yourself 1% for each of the following terms which has meaning for you sufficiently definite so that you can make at least one clearcut statement of fact about it. Credit yourself 2% for each term whose meaning is sufficiently detailed so that you can take part in an ordinary intelligent conversation about it. If you cannot make a single definite statement of fact about a term, credit yourself 0 for that term. Key is on page 174.

Samurai	alcalde
Garibaldi	bourse
Arica	mosque
cartel	go-down
Koran	Hanseatic League
"cash"	hong
Reichsbank	Montesquieu
Zola	Colon
pood	Buddha
Diesel	Bagdad
Punjab	Kimberley
Borghese	rajah
St. Gothard	Cecil Rhodes
Limoges	functional management
pasha	Hay-Pauncefote Treaty
Algeciras	Sublime Porte
Celt	Delhi
Valhalla	Queensland
Trafalgar	cordovan leather
milreis	"nationalization"
Kolchak	Chosen
Venizelos	bourgeoisie
Fiume	Dantzig
comprador	syndicalism
Nizhni Novgorod	Mona Lisa

Rating for Breadth of Interests and Sympathies—%

SELF-TEST ON AMERICANISM

1. Can you truthfully say that in meeting men of greater wealth, power, or influence than yourself, you maintain your independence of mind, with no attitude of obsequiousness or servility?

Credit 20% or lower according to your judgment—%

2. In dealing with subordinates in business, or other men of lower estate than yourself, are you inclined to treat with them equally as man to man, or are you apt to be condescending or overbearing?

Credit 20% or lower according to your judgment—%

3. Do you set for yourself high standards of efficiency? That is, in your daily work do you aim for results beyond routine requirements, and do you hold yourself to their accomplishment? When you fail in any particular, are you prone to make excuses and forget the failure, or are you spurred to greater determination and achievement?

Credit 20% or lower according to your judgment—%

4. Consider the last time you were thrown in contact with men whose standards of life and conduct you consider lower than yours, but with whom business policy made it necessary for you to associate. Can you honestly say that your speech and acts while in their company were such that you have no cause to feel ashamed?

Credit 20% or lower according to your judgment—%

5. Are you literally and in all senses loyal to your country? Are you faithful to defend it against adverse criticism, or against slighting remarks, both from foreigners and from fellow countrymen? Or do you evade such an unpleasant duty, either by keeping silent or by openly or tacitly agreeing?

Credit 20% or lower according to your judgment—%

Total rating for Americanism....—%

III

Nationalism in Foreign Trade

FOREIGN trade is more than buying and selling among individual traders, more than the competition of manufacturer with manufacturer and of merchant with merchant. It is a national affair also, and, as we shall see, takes the form of commercial rivalry among nations.

There is a basic distinction between domestic trade and foreign trade in this fact. An American dealing with a foreign business man will find himself regarded first of all as an American and only secondarily as a representative of his business house. He will find that his progress and success depend to a large extent on the good will that has been built up by other American business men. The experience of the foreigner with American exporters, with American shipping and banking facilities, and with American goods, will determine his attitude toward each new trading opportunity with America. If he was given a bad deal, as he thinks, in his purchase

*Foreign Trade
as National
Business*

of Smith Jones & Company's shoes, it is not as Smith Jones & Company's product that he remembers the shoes, but as "those rotten American shoes," and every other American shoe manufacturer will have a hard time selling him because of this generalization. At the same time, the opposite is true. The foreigner who buys an American product and finds it good is predisposed to favor other American merchandise.

Thus, American individuals, firms, and companies engaged in foreign trade are all more or less partners in a gigantic commercial enterprise. No matter how bitterly they may compete in domestic markets, they have a community of interests in foreign trade which compels them to work in harmony. When the Smith Jones & Company shoes begin to get a bad reputation in Boston or New York it simply means that their competitors will profit; people will cease to ask for the inferior brand and rival makes will get the business. But it is quite a different story when the Smith Jones & Company shoes show up in Buenos Aires. All the other American shoe manufacturers interested in foreign trade are nearly as much concerned as Smith Jones & Company in keeping the latter's product of unspotted reputation. For a blot on one is a blot on all American shoes, and the competi-

tors who will profit are the shoe exporters in Britain, Germany, and other foreign lands.

A man or a firm that fails to grasp this fundamental truth will be working at a disadvantage in all foreign trade operations. Isolation, the go-it-alone policy, is practically impossible here. This is one reason why the successful foreign-trade executive must be a broad-gauge man. He must be able to grasp this idea of trade as more than an individual or private interest; he must be able to see it as a national interest, necessary to the nation's welfare, as one in which he is the unofficial partner of every other American exporter and even of the national government itself.

This conception of foreign trade as a national interest is just beginning to get hold of the American people and their government. Only a few years ago "dollar diplomacy" was the target of ridicule and attack. Today it is universally recognized that the prosperity of all of us is bound up with the development of our overseas commerce, and that strong government backing should be given all legitimate American undertakings abroad. One reason for the criticism which has existed in the past of so-called "dollar diplomacy" was the unwillingness to permit adventurers abroad to use the power of our government

*The Go-it-alone
Policy Impossible*



LOWER NEW YORK

PHOTO BY EDWIN LEVICK

The gateway of the nation's foreign trade and the world's greatest commercial center since the outbreak of the European war

to support their projects. This resentment is entirely right, but the policy of protection and support applies only to legitimate business undertakings, and such a policy is a necessary accompaniment of the expansion of our trade overseas. The great European trading nations have long recognized this natural partnership which exists between the government of the nation and its export interests, and the recognition of the same principle by our own people and government is coincident with our rise to importance in overseas trading.

There are numerous ways by which the government aids and promotes the foreign trade of its citizens. By collecting, classifying, and making available to its traders the information of foreign markets, by fostering merchant shipping and thus providing the carriers of commerce, by national sanction of and provision for international banking and export financing facilities, by tariff regulations and agreements, by legislation aimed to foster export undertakings—these are in general the means by which national governments participate directly in foreign trade development. In our own case, we have the activities of our Departments of State and Commerce, particularly as represented in the Consular Service and the Bureau of Foreign and Domestic

*Government
Aids to
Foreign Trade*

Commerce; of our Shipping Board, Federal Reserve Board, Federal Trade Commission; and the enactment of the Webb-Pomerene Act, permitting American business concerns to combine for overseas trade, representing legislation aimed to foster exporting. Our preferential tariffs with Cuba and Brazil, among others, give our foreign tradesmen an advantageous position in commerce with those countries. Many business men feel that our government should go even further in the direction of safeguarding American investments abroad, of regulating international trade, of securing additional tariff concessions, and of furnishing direct aid in extending foreign credits and supplying credit information of foreign markets.

The other industrial nations have their own government agencies which in greater or less degree parallel these functions and render similar services to their own business. In some countries aggressive trade promotion has been for years a direct interest of the government, and official organizations of business men exist under government auspices. In France, Germany, and certain other continental nations, as well as in Japan, for example, the chambers of commerce are not private associations of business men, as in the United States, but are official, and possessed

of various trade, regulatory, and promotional functions under the jurisdiction of the state.

While the nation as a government provides for the regulation and promotion of foreign trade, it ordinarily leaves the actual machinery of foreign trade to be supplied by private business enterprise. This machinery includes established trade routes to foreign markets; shipping lines; facilities for financing foreign business, for securing credit information, and for collecting and transmitting payments; as well as personnel trained in the technique of exporting and importing, overseas traders who know foreign trade both as a practical business and as a national interest.

America's foreign trade machinery was in many ways inadequate at the time of the outbreak of war in Europe in 1914. The fact was reflected in the sudden paralysis of our trade with overseas markets; almost overnight shipping lines ceased to function, financial connections were broken or seriously impaired, and the flow of goods interrupted. The war alone was sufficient cause for this situation at the beginning; in the face of its uncertainties all business was more or less a gamble; but within a few months it was apparent that deficiency in foreign trade machinery was largely responsible for our condition. For-

*Machinery of
Foreign Trade*

eign lands were eager for our goods, our markets stood in need of their raw materials, but for months our trade was held down to the barest movement. It was not only our lack of ships—we had been depending largely on British and German vessels to carry our goods—but also our lack of financing facilities, and the fact that so much of our business was with the reexport markets of Europe which were now in a state of paralysis. We had depended too much on the shipping and financing facilities of other nations.

It is an old story now how the United States readjusted itself to these changed conditions. Ships were built, both privately and by the government; branch banks were multiplied abroad; direct trade routes were established to many foreign lands that we had traded with indirectly through London, Hamburg, Amsterdam, or other reexport markets; export houses expanded in size and increased in numbers; and at the same time scores of manufacturers entered the export field for the first time. A movement was started that is still going on. Out of the individual efforts of American producers of raw materials, manufacturers, export houses, shipping lines and forwarders, bankers, import houses, and all others interested in foreign trade, we are now engaged in building up a national for-

eign trade machinery as great as, or greater than, that of any other nation.

We have not only increased our machinery for foreign trade, but we have made substantial progress in the direction of co-ordination of this machinery. The export combinations made possi-

Coordinating the Machinery
ble under the Webb-Pomerene Act are the most obvious example of this tendency now noticeable in all our foreign trade structure. It is doubtful if American industry, commerce, and finance could ever be organized for foreign trade with the close coordination that prewar Germany, under the official auspices of the imperial state, organized her entire resources of production, transportation, and trade. Nor is it desirable, for the peace of the world, that such combinations should exist. But the national conception of foreign trade is vital, and organization based on this idea is essential. This conception the United States now has and is putting into practise. The wartime regulation of industry and commerce was one factor in this movement, but also important have been the work and the influence of voluntary organizations of business men, headed by the National Foreign Trade Council. Our manufacturers, merchants, carriers, and bankers interested in foreign trade now have a new sense of their community of inter-

est, and with the encouragement and direct aid rendered by the government through such agencies as the Departments of State and Commerce, the Shipping Board, and the Federal Reserve Board, are increasing and perfecting our foreign trade machinery on a national scale.

This national aspect of foreign trade is true with respect not only to the exporting group,

*Viewing the
Markets as
National Units*

but also to the buying group. We must conceive of foreign trade as commercial intercourse between nations. In our survey of a for-

eign market, we must recognize the market as possessed of racial and national characteristics which must be taken into account in all our foreign trade planning. Just as we know that the Chinese will regard our representative, our goods, and our trade facilities as primarily American, and only secondarily will identify them with Smith Jones & Company, so we are right in classifying our China market as Chinese, distinguished by all the peculiarities which observation and experience have shown to be characteristic of that market. Foreign trade can be permanent only if its methods fit in with the characteristics or conditions peculiar to the people to whom we sell.

These conditions which the exporter—and

just as truly, the importer—must take into account in trading with the people of a particular country, include such factors as:

1. Prevailing personal characteristics of the people.
2. Tariff policy and other governmental regulations of commerce.
3. Commercial law and prevailing mercantile customs of the country.
4. Political conditions.
5. Financial conditions.

One of the common mistakes in foreign trade is the failure to recognize and make proper allowance for the personal likes, dislikes, customs, habits of thought, and physical peculiarities of the customers.

Taking into Account National Characteristics

Yankee business ways, with their characteristic straight-from-the-shoulder methods, invariably rile the Latin-American merchant who is accustomed to doing his business leisurely, and resents any appearance of hustle. Much of the business of France is done in what would to us seem a rather incidental way. Courtesy is everything. Little can be done at the first interview. So too in dealings with the better class merchants of Japan and China; it is disastrous to be too prompt in coming down to business. The Oriental

mind resents bluntness, abruptness, or anything that may seem to be a slighting of the customary formalities.

Local superstitions cannot be ignored with impunity. An exporter of canned salmon, for which a large demand exists in the Far East, was puzzled at the slowness with which his goods were selling in the Philippines. Eventually the mystery was made clear when he learned of a native Filipino superstition to the effect that only dead fish lie with their tails on the ground. The labels on all his cans bore the picture of a fish lying flat.

Another American company found difficulty in marketing a certain brand of condensed milk among the Chinese. The export house which handled the goods later found that it was the purple label on the cans which queered their sale; purple is the mourning color of the Chinese, and they didn't fancy buying food so marked. Elmer R. Murphey, of James H. Rhodes and Co., tells of an exporter of lighting fixtures who adopted as his "chop" or trademark for China a picture of the rising sun. Instead of being a help, the chop proved to be a hindrance to sales; for the Chinese identified it with the national emblem of Japan, and Japan was not popular in China at that time. Similar instances might be recounted by the score, and of practically

every foreign market. Too much care cannot be given at the beginning of the export enterprise to make sure that the sales appeal, both in its conception and in its working out, is adapted to the prospective customer.

Frequently it is not only the sales appeal that must be adapted, but the goods themselves. A native of British India some years ago wrote the following explanation why certain German goods were preferred in that market to British goods:

“The British exporter does not understand why his marrow spoons are refused and those ‘made in Germany’ find a ready market in India. The answer is simple. The English marrow spoon is too thick for the bones of the Indian sheep. The German manufacturer makes the marrow spoons suit the bones of the Indian sheep. The egg cup that the British exporter sends to India is too large for the eggs of the Indian hen. The German manufacturer measures the egg and then makes the egg cup for the Indian market. The Birmingham manufacturer thinks he has a grievance because German scissors of the same price find a better market in India than his own make. He does not know that the village tailor has a superstitious regard for his thumb, which he wants to keep in more comfort than his index finger. The orthodox manufacturer of Birmingham does not, or will not, study the convenience of the Indian villagers. What he ignores or neglects as mere prejudice is profitably turned to account by his German rival. The secret of the German trader’s success is that he never tries to impose his own judgment on his Indian cus-

tomers. He understands that the habits of thousands of years cannot change in a day."

Study the Human Factors Involved

Of course the solution to this, and every other kind of problem in adaptation, is that which the Hindu critic points out; namely, *investigate*. Study the market you purpose entering, and study it in relation to your product. Don't look simply at the statistics of population, industrial resources, per capita wealth, purchasing power, and the like. Look also at the human element, and see your prospective market in terms of human beings, with likes and dislikes, with firmly-fixed habits and prejudices, and it may be with physical limitations which directly affect their ability to use your goods.

An axe manufacturer failed in his sales effort in a certain country simply because his axes were too heavy for the small-sized natives to use. In another case, exporters in the United States with surplus stocks of shoes and collars of large sizes decided to work these goods off in the Philippines, and large shipments were made to representatives there before the matter of sizes was gone into. The goods had to be sent back, for the people of the Philippines are noted for their small feet and rarely wear collars larger than size 14.

A shoe manufacturer exporting to a certain South American country found just the reverse to be the case in his market. In women's shoes larger ankle space was required than for corresponding sizes in the United States. Moreover, the custom prevalent there of lacing shoes tightly, so that the sides meet, made further demands upon the manufacturer, so that he found it necessary to make shoes for that market different from those made for the United States market.

How far a manufacturer is justified in catering to a market, is a question that must be judged on the facts in each case. A manufacturer who turns out his product on a big scale at a low per-unit cost is able to produce on this basis because his product is standardized. He cannot vary his established standards of design or material or finish without adding to the cost, and it is natural for him to object to changes. Only if the prospective trade warrants such changes is he justified in making them. If an American motor company finds that a broader wheelbase is required for the trade in a certain European country, it is justified in manufacturing a car to suit this market only if the market is large enough to call for an output sufficient to warrant the expense involved in variations from established stand-

*Catering to
a Market*

ards. The willingness of the buyer to pay for extra costs involved in meeting his requirements would of course justify a manufacturer in any degree of catering—provided the manufacturer cares for such small-scale business.

It should not be taken for granted, however, that a new market cannot be educated to prefer a manufacturer's standard line. In certain industries there was a universal prejudice among Europeans in favor of heavy tools and machinery, whereas the American practise is to make these implements in more graceful and lighter designs with a view to speed of operation and rapidity of output rather than of long life. In some of these industries the American manufacturers have been able to convert the Europeans to their point of view; to the great gain of our export machinery trade and to the great gain in efficiency of European industry. But such conversions can rarely be accomplished by any storming tactics or by any method other than the most tactful and considerate appeal to the self-interest of the customer.

Another national characteristic of the foreign market which the exporter must take into account, is its tariff policy. Does this policy favor, or does it discourage, outside trade? In no other way, perhaps, does nationalism assert

itself more emphatically in foreign trade than through the agency of the tariff. In countries with a high tariff, the duties on certain lines of merchandise are occasionally so high as to shut off all possibility of foreign trade in those lines. In some cases, the method of figuring the duty is such as to shut out certain grades, but permit profitable trade in other grades. For example, in Brazil watches are taxed at the custom house at so much per watch, rather than on an ad valorem basis. The result is that the manufacturers of an American dollar watch found it impossible to sell their goods in that country, though manufacturers of high-priced watches did not find the tariff an insurmountable barrier. Similarly, in certain Latin-American countries there is a high tariff on canned goods which was fixed some years ago on the basis of the expensive costly-packaged canned goods of France. In some cases it may amount to as much as fifty cents or a dollar a can. Such a tariff was prohibitive to our cheaper canned goods produced in the United States, simply because the import tax was several times the cost of the goods themselves.

In such circumstances, where the tariff is so high that competition is practically shut out,

*The Tariff as
a Trade Factor*

the exporter is simply an outsider and must look elsewhere for business.

Nations differ widely in their laws governing commerce and in the prevailing customs of business. As Unit X will show in detail, the common law is the fundamental law in some countries, while others are "code" or civil law countries.

National Differences in the Law and Customs of Business

The common law is peculiarly the expression of the Anglo-Saxon peoples, whereas the civil law is expressive of the Latin peoples. In some countries the foreign law comes in and imposes itself on the home law, as is the case in China for example. Legal requirements affecting trade differ among countries in numerous details. Certain formalities must be met by traders in one country that are not required in others. Many of the Latin-American nations, for example, require traveling salesmen to register and obtain a license from the government before they are permitted to display their wares. Protection against fraud varies as one passes into new national bounds; there are wide variations in bankruptcy laws and in patent laws. China, for instance, has no trademark or copyright law. Since the copying of a popular brand name is not a crime there, imitation is common. Argentina has a copyright law, but it

grants registration to the first person applying. Many an exporter has entered that field to find his trademark owned by some pirate who had cunningly anticipated his coming and had already registered it. All the exporter can do in such cases is to buy the title from the pirate or adopt and register some new trademark. While a number of nations, including the United States, are parties to an International Convention for the Protection of Industrial Property, through which progress is gradually being made toward uniformity in patent and trademark laws, this point still remains one in which national divergencies are numerous.

The prevailing customs of business, methods of merchandising, accustomed terms of credit, and systems of payment are also significant, and vary widely.

The stability of the government and other political conditions and labor and industrial conditions are highly important points of inquiry in gauging the *Political and Labor Conditions* value of a prospective foreign market. Since foreign trade is so largely a matter of credit, and since credit is practically non-existent under conditions of political overturn and consequent social chaos, it is self-evident that exporters must discriminate

among markets on the basis of their relative political and industrial stability.

The reign of Bolshevism in Russia prevented that country from becoming one of the biggest markets for American agricultural implements, railway equipment, machinery, and other products at the close of the war. Conditions were so unstable that only the most venturesome exporters could risk them. The unrest of labor in certain countries of Europe at the close of the war was also a factor which the prudent exporter, contemplating those markets, had to consider very seriously. The harbor strike in Buenos Aires in 1918 tied up business and paralyzed all commerce through that port. The case of Mexico is near at hand and fresh in the minds of all of us.

Finally, there is the matter of financial conditions, including currency, the state of inter-

Financial Conditions national exchange, and facilities for financing trade. Currency is everywhere a national creation. Each nation fixes its own standards and units of value, and domestic trade is simply exchange of goods in terms of the money unit of the country. But when we come into foreign trade we have a buyer who thinks in terms of one currency and a seller who reckons value in terms of another. The exporter in the United States deals in dollars, whereas the purchaser in Ar-

gentina deals in pesos. In selling goods the American exporter wants his payment in dollars, but before he will buy the Argentine importer wants to see the price expressed in pesos, the money unit with which he must deal in reselling the imports to his customers.

If this were all there is to the problem, its solution would be comparatively simple. But the fact is that the value of the peso in terms of the dollar fluctuates with variations in the balance of trade between Argentina and the United States. If exports from the United States to Argentina exactly equaled imports from that country, there would be no fluctuation in the exchange value of the currencies of the two countries, for Argentine imports would pay for United States exports. But when our imports from Argentina outweigh in value our exports to that country, there is left a balance owing the Argentina traders which must be settled in money. Under the conditions described there is no demand for money to go from Argentina to the United States, but only for payment from the United States to Argentina. The international bankers who deal in money as the exporter deals in goods are called upon to arrange the settlement, to transmit the payment to Argentina, and they charge a fee or discount for their service. The rate of this discount in-

creases as the demand for such service increases, and of course affects the exchange value of the currencies. If an exporter in the United States, in order to pay for purchases of Argentine hides, has to pay not only the full value of the hides as quoted by the Argentine seller in pesos and translated into terms of United States dollars, but also the exchange discount charged by the bank for transmitting his payment, you can see how fluctuations in the exchange rate directly affect the cost of his hides. What he pays the banker is part of his cost, as well as what goes to the Argentine seller. Or to express the transaction in terms of exchange entirely, more dollars are required to match a standard number of pesos than is the case when exports and imports between the two countries balance, or when the surplus of United States imports over exports is less. With each increase in the surplus of our imports over exports, the value of the dollar in terms of the peso diminishes; with each increase in the surplus of our exports over imports, the value of the dollar in terms of the peso increases. Thus we speak of "buying" foreign exchange, and instead of quoting a discount rate or fee the foreign exchange banker or broker will quote the exchange value of the home currency in terms of foreign currencies. He will "sell"

you so many francs, or lire, or marks, or pesos, for a dollar, according to the rate ruling at the time.

From this explanation it is clear that when the exchange to a given country is running high, that market is likely to be a difficult one. It means high prices to the buyer, and is naturally a matter of concern to the exporter—like an excessive freight rate or other items tacked on to cost price. Sometimes other factors than an adverse merchandise balance enter into the situation and affect exchange. This was the case with France at the close of the war, when in addition to large trade balances owing the United States it had a highly inflated currency. The result was a very high rate of exchange in making payments from France to the United States, the franc having quickly fallen in the summer of 1919 to as low as 11 cents.

The intricacies of foreign exchange are usually left to the foreign exchange banker or broker, but the live exporter or importer cannot afford to remain in ignorance of its principle and of its practical effect upon commerce. Similarly with these other national characteristics and aspects of foreign trade; recognition of them is absolutely essential to the right approach to foreign busi-

*Breadth of View
and Straight
Thinking*

ness, and is indispensable to successful continuance. Breadth of view is necessary in handling even simple export and import transactions. As was suggested in the discussion of the foreign tradesman's personality, the narrow outlook is impossible here. The down-in-the-rut type of business man may "get by" in domestic business, but not in foreign business. The successful foreign trade executive—and the ambitious subordinate who has his eye on the executive chair—must first of all think nationally. Next he must think straight as to the general principles of merchandising, shipping, and financing abroad. Only then is he prepared to think specifically of his own business and its problems.

IV

International Currents of Trade

THE practical business man often has a prejudice against economics. He may admit that there is some sense in it, but adds that it is too theoretical and of no particular significance in practical business. Such things, he says, will take care of themselves. As one Yankee exporter expressed it, "All I'm interested in is whether or not a market or a line will pay. That's all I need to know."

But when the practical man gets the national conception of foreign trade, he finds it difficult to ignore the fundamental principles which, by whatever name we may call them, determine and control commerce between national groups. Surface causes and surface effects are not sufficient. The answer that "it pays" is not enough to satisfy a really keen business man who is looking toward the future and is taking good care to avoid serious mistakes. What makes it pay? How long and under what conditions will it continue to

*Surface Causes
and Effects
Not Sufficient*

pay? Why doesn't the producer sell his goods at home and eliminate long-distance transactions? What are the chances that foreign producers may make competition too hot for him? Are there any pitfalls in the general world situation that must be avoided?

These questions bring us to the basic principles of economic life—the principles which control demand and supply and which determine the character and volume of trade currents between nations.

In considering these factors, let us for the moment look upon the nations of the world as producing units. The character of production varies among them, as it does among individuals.

Nations as Producing Units Some may be likened to huge plantations, farms, or ranches; their production is predominantly that of the soil. Australia, Canada, Argentina, and the countries of the Tropics are of this type. Others are distinctly mineral-producing. Mexico and Chile are examples. Some nations are like vast workshops, their activities being largely concentrated on manufacturing, and their principal production being manufactured goods. England is the outstanding example of this type.

It is because of this specialization—or, as it is more generally called, *division of labor*—among nations, that foreign trade exists. The

nation that specializes on manufacturing turns out manufactured goods in quantities beyond the capacity of its people to consume. And the same holds true of the agricultural and mining nations—they produce more of their peculiar production than their own people can make use of. International trade is primarily the exchange of these surpluses—the nation which has more grain or hides than it can use simply sells its surplus production to other nations which lack these commodities, and buys from nations which have a surplus of manufactures the shoes, clothes, and other manufactured goods which it needs. Viewed from the national standpoint, foreign trade is simply barter—the trading of such goods as you can spare for goods which you have need of. A nation in which all needed goods were produced in exactly the quantities required by the population, with no shortage of anything and no surplus, would conceivably have no foreign trade, and no reason for it. It is the pinch of need for goods not produced within its bounds, or the urge to reap profit from the surplus production of other goods—usually the combination of these two causes—that brings a nation into trading relations with its neighbors.

But division of labor and the production of surpluses are not themselves prime fac-

tors. They are the results of an even more fundamental principle which operates uni-

Diversity of Resources versally in industry and is in fact the basic factor in foreign trade. This factor we call *diversity of resources*.

By diversity of resources is meant the difference which exists between geographical regions with respect to the character or quantity of their resources. Difference in resources between England and Argentina is responsible for the wide contrast in industries and production between the two countries. Cuba specializes on sugar production and produces a surplus of sugar because the Cuban soil and climate are favorable to that particular industry. Chile is a large exporter of nitrate, copper, potash, and other mineral products because of its extensive mines. England is a great exporter of cutlery and hardware because of its long-established factories and its experienced mechanics skilled in making these wares. The resources of the nation determine what shall be the predominant character of its industry and what its surplus production.

Resources are of many kinds, but in general may be classified under two headings: (1) Natural resources, and (2) Artificial resources.

By natural resources is meant the raw materials found in the country, or possible there. The natural resources of the United States include not only the corn and tobacco which were native to the land, but the cotton which was brought over from abroad and introduced here. *Natural Resources* Occasionally, the industry and trade of a section will be entirely revolutionized by the introduction of some new product to which its climate and soil seem peculiarly adapted. This was the case in Ceylon, when the native coffee which had for centuries grown wild there was largely supplanted by tea. The same thing is happening as a result of the introduction of rubber trees from South America into Ceylon, the Malay Peninsula, and other parts of the Far East. These rubber plantations are becoming resources of exceptional productive power, and are vitally affecting the currents of international trade in rubber.

Climate and soil fertility are thus as much a part of natural resources as mineral deposits, or standing timber, or fish in the waters; and water power is as much a natural resource as a coal mine. All endowments of nature which contribute to the industrial activity of a region are natural resources.

It is not difficult to point out nations which have few natural resources of the kinds con-

tributory to production, and yet are big factors in industry and in foreign trade. England is an example. The only natural resource which it has in great abundance is coal. Its manufactures of iron, steel, copper, and other metal products are in enormous volume, but most of the raw materials have to be brought into the country from distant sources of supply. American cotton is carried to England, spun and woven into cloth, and sold in the markets of the world. Australian wool is brought to England for manufacture into woollens and worsteds, and Argentine hides go there for manufacture into leather goods. No hides, no wool, no cotton are produced in England on a commercial scale, and yet its production of finished products from these raw materials makes it one of the world's chief sources of supply for such goods.

To account for industrial productivity in a region barely supplied with natural en-

Artificial Resources dowments of raw material, we must look to the second group of resources. By artificial resources is meant all those man-made factors which contribute to production and the interchange of goods—such factors as skilled labor, transportation facilities, financing facilities, foreign investment of capital, and government trade regulation.

In the case of England, it was the early development of mechanical inventions and industrial processes that gave her the jump in manufacturing. The modern factory system started there, and the effect was to train up a great body of skilled mechanics, spinners, weavers, factory operatives of various kinds. It was the possession of these established industries, built originally to supply local needs and gradually expanded as trade relations extended to other countries, that, among other things, made it more profitable to bring raw materials from distant sources of supply and manufacture them in industrial England than to attempt to establish the factories near the sources of supply.

In the regional concentration of certain industries in America we can see here at home examples of how skilled labor affects the character of local industry. There is apparently no reason why the rubber manufacturing activities of the United States should center in the neighborhood of Akron except the fact that the labor of that section is trained in the technique of rubber manufacture. Similarly, trained labor supply makes New England and the neighborhood of Philadelphia centers for the textile industry of this country, though in neither section is wool or cotton produced. Trained labor

*Skilled
Labor*

supply made Belgium one of the busiest workshops of Europe, another industrial England on a small scale.

Skilled labor supply, of itself, is not enough, however. There must be facilities to bring the needed raw materials from the sources of supply, as well as to carry the finished goods to outside markets. Not only an insular nation, like Great Britain, but any nation dependent at all for outside supplies of foodstuffs, raw materials, and other goods, finds transportation facilities vital to its industry. The network of railroads on the continent of Europe connected with the shipping lines which radiate from every port is an essential factor in the vast international trade of the countries on the continent, and is in striking contrast with the scant transportation facilities of a country like China, vast in area and in human resources, but low in production and in foreign trade.

Without transportation facilities there can be no foreign trade. There must be carriers

Transportation Facilities of commerce, or there can be no commerce. But does it make any difference to a nation's foreign trade whether its products are carried in its own ships, or in those sailing under a foreign flag? This is a much-discussed question, and touches upon the problem of our American

merchant marine—a subject to be discussed later. Certainly Great Britain has considered her merchant marine a vital factor in her foreign trade development, and Germany counted her merchant fleet one of her greatest assets in fighting for German trade in the markets of the world. An American merchant marine would seem to assure adequate lines of communication with the markets sought after and served by American exporters, whereas foreign ships would naturally serve first the needs of their own nationals.

Transportation facilities include also facilities of communication—telegraph, telephone, and cable lines, and wireless stations. Without these resources of rapid communication it is difficult to imagine our present structure of foreign trade.

The presence or absence of a stable monetary system affects directly a nation's commercial relations. It is no accident that the standard of international exchange for generations has been the British pound sterling, and that Britain had long been the dominant power in world commerce. Only recently have this standard and this supremacy been even challenged. Moreover, the existence of banking connections between the home country and the foreign markets serves in a vital way the trading activity

Financing Facilities

between them. Foreign trade can no more be conducted on a strictly cash basis than domestic trade can; such a limitation would restrict it into too narrow confines. Therefore there must be means of extending credit and collecting outstandings as they become due, as well as of arranging for the exchange of money from the currency of one country into that of another. Thus international banks and banking connections play an important part in the trader's operations, and are indispensable to any big-scale permanent foreign trade.

The matter of foreign investment of capital is a separate item from that of financing facilities, though the two are often confused. If the commercial interests of a nation invest capital in the public works or other development enterprises of a foreign country, they have a resource that is extremely effective in getting trade with the foreign country. This is true for two reasons. First, without the investment from abroad the foreign nation would probably not undertake the development, and its advancement in civilization and in capacity to use exported goods would be retarded by just so much. Second, the loan of money abroad attracts trade to the source of the loan. One reason why Europe enjoyed so large a

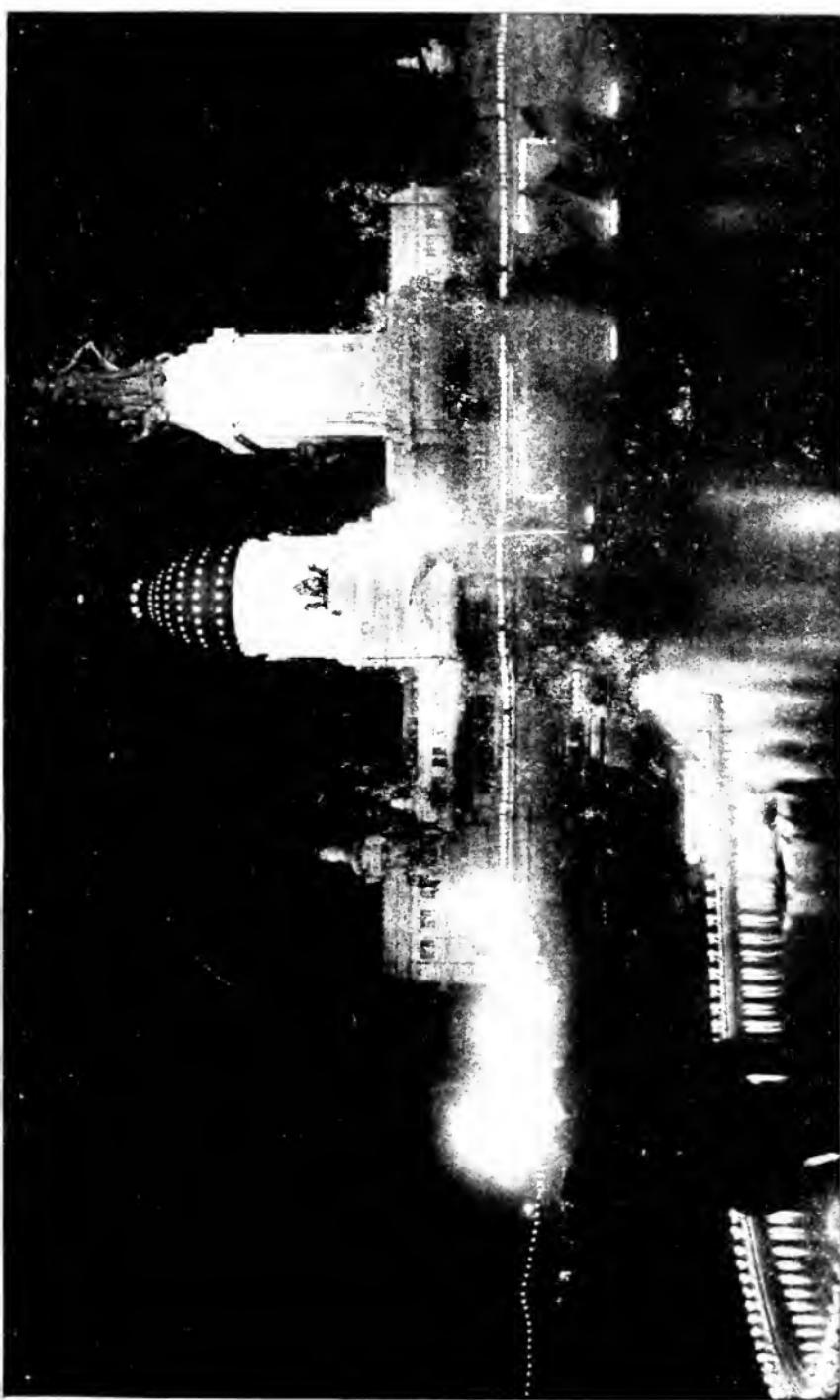


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A GERMAN INVESTMENT IN SOUTH AMERICA

The electric light and power business in Buenos Aires, Argentina, is still controlled by German capital.

share of South American trade is the fact that Europeans had invested large sums of money in South American government bonds, railroad securities, and other public utilities securities. In many cases, the stipulation is made that the borrower shall obtain all his supplies for the enterprise from the lender. So powerful has become the lever which big industrial nations exert by virtue of their loans, that the export of capital in many cases is more powerful than any other factor in directing the movement of trade. The British-owned railways and the German-owned lighting plants of Latin-America have returned a steady stream of orders, as well as dividends, to the home countries.

Heretofore the European countries have done most of the financing of public works and other development projects in the younger nations. In fact, a great deal of the capital required for the building of railroads in the United States during the past half century was obtained in Europe. But signs are numerous that the United States has awakened to the importance of investment abroad as a factor in trade, as well as an opportunity for the profitable use of its surplus capital; and we may count upon this tendency increasing. It is a matter of far-reaching significance to our export interests.

The preceding chapter has already discussed the tariff as a national trade factor.

As an economic factor, the tariff is an artificial means of controlling outside competition.

The Tariff as an Economic Factor

In its original use the taxation of imports was employed to raise revenue, but today its primary purpose frequently is to protect home industries. The economic status of a nation is reflected in its tariff policy. Usually, the nation which has a protective tariff is emerging into the industrial or manufacturing stage, the tariff being a means of protecting and stimulating its internal industries. When a nation is thoroughly developed industrially and has a vital interest in extending its markets over-seas, the tendency is toward free trade rather than protection. Also a nation which has not yet emerged into the industrial class, but is largely occupied with agriculture, forestry, mining, or other forms of extractive production, is likely to find a free trade policy desirable—though there are certain Latin-American countries which are largely producers of raw materials and have nevertheless high protective tariffs.

It is obvious that the tariff may operate directly in affecting the division of labor and in determining the currents of trade between nations. It may shut off all competition from

outside producers, or it may be so constructed that, in contrast with the tariff policy of competing nations, it invites trade from outside. In general it may be said, however, that the tariff as a trade influence is restrictive rather than promotive. It is the absence of customs duties, rather than the presence of them, that swells the volume of trade into and out of a given nation.

On the other hand, it is the presence of natural resources, of skilled labor, of transportation and banking facilities, and the investment of capital abroad that stimulates as well as serves a nation's foreign commerce. It would be dangerous to venture any estimate of the relative value of these different resources, for all are important. But experience seems to prove that in international trade a nation is better equipped if it possesses the artificial resources than if it is without them. Under normal conditions it is possible to obtain needed raw materials and foodstuffs, for generally the countries producing these supplies are in need of manufactured goods and are glad to trade. On the other hand, no matter how great may be the endowment of mines, fields, and forests, if a nation is without adequate transportation facilities it is unable to utilize these products to advantage; if it has no trained industrial workers, it is unable to

transform its raw material into the more valuable manufactured goods; if it has no banking or other trading facilities with its neighbors, it is truly cut off from trade relations.

China is an example of a country rich in natural resources but impoverished as to artificial resources. Relative to its population, its foreign trade is small. In Japan conditions are just the reverse.

In its territory, smaller than California, Japan has more railway mileage than the whole of China; it has steamship lines, it has skilled factory labor—and it has a big and growing foreign trade.

Relative Value of Resources At the same time, the possession of its own raw materials is an immense advantage to an industrial nation. Many of them make up for their domestic poverty in raw materials through the possession of colonies. Thus the British colonial possessions, with their variety of natural products, are an asset of incalculable value to the British manufacturing and trading interests: they insure supplies of necessary foodstuffs and raw materials. So, too, with the Belgian colonies in Africa, the Dutch colonies in the East Indies, the French colonies in northern Africa. Colonies are trade factors not only as sources of supply for crude products, but also as markets for finished goods.

A nation that possesses within its own national bounds great natural resources and at the same time has developed its industrial, transportation, and trading resources to a high degree, is in a most fortunate position. Perhaps of all the nations in the world, the United States today is the one that this description most nearly fits. Other nations may have as great agricultural, mineral, and forest resources as we have, but they are new in industry and lack adequate facilities of manufacture, transportation, and trade. Still other nations have these latter facilities developed to as great degree as we have—in some cases, it may be, to a greater degree—but they lack the nearby natural resources.

No matter how balanced may be its resources, however, it is difficult to find a nation that has no need of outside products. In our own case, for example, the United States produces no rubber, no coffee, no tea, no cocoa, no ivory. We have to import hundreds of such products as these. Moreover, there are hundreds of other products which we can produce but which we find it preferable to get from abroad. We buy hides from the Argentine, though we are perfectly capable of raising enough to supply our own needs. We get wool from Australia, though

*Always a
Demand for
Outside Products*

we used to raise our own wool. Other occupations have lured many of our people from cattle raising and from sheep raising, and so with numerous other lines. Just as the individual manufacturer finds it more profitable to buy his fuel and raw material, instead of trying to extract them himself from the ground, so the nation as an industrial unit frequently finds it a better plan to buy certain products, even though they may be products which it could raise.

It is all a working out of the principle of division of labor as influenced by diversity of resources. The foreign tradesman who sees clearly this economic basis of foreign trade, will be careful in his survey of markets to investigate their resources with a carefully appraising eye. He will be interested in what a given market is accustomed to demanding, and his inquiry into tastes, standards of living, purchasing power, and the like, will indicate whether demand can be created for new goods; to what degree manufactured goods can make headway in competition with native or homespun products. He will consider also the resources of his competitors, whether their raw material supplies and equipment of producing, carrying, and trading facilities give them advantage or disadvantage. He will consider the stability of existing facilities

between his country and that of the foreign market; whether shipping lines are adequate and sailings regular, whether they are likely to continue so; financing facilities and their relation to his particular trade.

The farsighted exporter will be interested also in the character and volume of production in his foreign market. In its fundamentals, foreign trade is *Trade is Reciprocal* exchange, and a permanent export trade is hardly possible without import trade. A nation cannot be all buyer, any more than an individual can. The man who knows the economics of foreign trade does not commit the error of expecting that the current of trade can run in one direction. He does not boast that heavy exports and light imports are necessarily a healthy condition of his nation's commerce. Wide differences in foreign exchange only reflect a condition of unbalanced trade due to the excessive flow of goods in one direction. The wise exporter takes this factor into account also, for a prevailing high rate of exchange or wide fluctuations in exchange directly affect the security of his markets and the profitability of his trade.

Thus the right answer to the question "Does it pay?" or "Will it pay?" involves a great many considerations and cannot be arrived at without practical study of the economic fac-

tors involved. You may call them what you will. But you cannot consider them as something of which your problem is independent. The flow of commodities between nations is in obedience to economic law, the response of supply in one nation to demand in another, this response made possible by the division of labor which results in the production of a surplus in certain lines, and this division of labor being the result in turn of diversity of resources among the nations. The exporter or importer who sees his individual foreign trade problems in the light of these controlling principles, has a basis for right thinking in foreign trade that will save him many costly mistakes.

V

Industries and Foreign Trade

IN this flow of commodities between nations which we call foreign trade, we note that the dominant nations are the industrial nations—the exporters of manufactured goods as distinguished from the exporters of raw materials. The European nations which play a large part in overseas commerce are predominantly manufacturing countries. The rise of the United States to a commanding position in foreign trade has been coordinate with the development of our manufacturing from small scale to large scale.

Perhaps the greatest single influence in the development of international trade was the invention of labor-saving machinery and the industrial revolution which followed in the latter years of the eighteenth century. For the factory is the great producer of surpluses. It is the factory, with its high-speed machine production and its mass output, that calls for raw materials in enormous volume, that makes goods in quantities sufficient to supply the world, and that

*Influence of
the Factory*

so largely and so intimately affects the division of labor among the peoples of the earth. It is the factory that stimulates the production of raw materials in far away countries, and conversely it is the factory which supplies the necessities and luxuries called for by these distant producers. Think what mining and agriculture would be without factory-made implements, harvesters, tractors, and mining machinery. Without the factory, big-scale production would be impossible; and without big-scale production there could scarcely be big-scale markets, or big-scale distribution. Our modern world commerce is the child of the factory system.

Factories, however, are not usually among the early developments of a nation's industry. The natural resources of the country claim first attention, and these determine the prevailing industry of the people and determine what their exports shall be.

It was logical that the early efforts of the people of the United States should be applied to agriculture—for therein lay the cultivation of the most obvious of nature's resources. And as the population increased, both naturally and by immigration, the settlements simply extended themselves inland. A vast empire remained to be developed, and not until the West had

*Why Agriculture
Was Preeminent*

been opened up and its lands occupied did manufacturing begin to challenge the supremacy of the agricultural occupations.

The big era of foodstuff production came about the middle of the nineteenth century, following the opening of the central and western areas to agriculture and stock raising. In the upper Mississippi Valley the great bonanza farms sprang up with tens of thousands of acres and thousands of employees under a single management. The perfecting of the harvester and other mechanical aids to agriculture contributed to this development.

Similarly, along the foot of the Rockies and in the Southwest, where climatic conditions did not justify wheat growing, the land was devoted to grazing. Vast ranches were established. The United States became the largest meat-producing country in the world. At the same time, we began to tap the unmeasured resources of minerals and other raw materials for which foreign nations had a demand.

It was from the surplus of those great productions of foodstuffs and raw materials that the bulk of our exports came.

Meanwhile a great change was taking place in the producing and consuming powers of the American people. In the thirty years from 1870 to 1900, the population increased from

approximately 40,000,000 to 80,000,000, and this doubling of the population not only meant

More Mouths to Feed, Less Food to Export

more mouths to feed but a doubling also in the demand for homes and foremployment. When the supply of public lands available under the Homestead Law became

scarce, there arose a demand that the big farms and cattle ranges be broken up. The ensuing years witnessed a gradual disintegration of many of these large holdings. The increase in population, involving an increase in the domestic demand for food and other essential products, caused a diminution in the surplus of foodstuffs, especially meat, and a consequent reduction in exports. While the constantly rising price of meats reduced somewhat the decline in money value of the quantities exported, the decrease in volume was so great that our exports of meat products fell from \$202,000,000 in 1906 to \$143,000,000 in 1914.

The pressure of increasing population stimulated the growth of factories, the building of railroads, the development of mineral resources. With the growth of cities and towns and their consequently large consuming populations dependent upon the agricultural production of the farms and ranges, the foodstuffs group gradually formed a smaller and

smaller proportion of our total export trade.

At the same time outside competition was developing. Argentina and Australia were experiencing a movement somewhat similar to that of the opening up of our Great West; vast cattle and sheep ranches were developing there, and the perfecting of the refrigerating system made it possible for Europe and other lands to draw meat supplies from these far-away sources. While our exports of wheat were falling from \$191,000,000 in 1880 to \$113,000,000 in 1902, and to \$28,000,000 in 1912, other sections of the world such as Argentina and Canada were making up the deficit. And so with corn, barley, dairy products, hay, hides and skins, and flaxseed; exports from the United States declined, and less-developed regions came forward to supply the world's needs.

This does not mean that agriculture is a small or negligible interest in the United States today. America is still the greatest wheat-producing region, the greatest corn-producing region, the great cotton-producing region. What has happened is that our own needs are so great that we consume an increasing quantity of these agricultural products ourselves, and thus have a smaller surplus for export. The United States produces ten

*Competition
from the
Less-developed
Countries*

times as much corn as Argentina and yet the Argentine exports of corn are far in excess of ours. About the only agricultural product of the United States which has shown a normal increase in exports in recent years is cotton. Cotton exports increased from less than 2,000,000,000 pounds in 1886 to 3,500,000,000 in 1895, to 4,000,000,000 in 1905, and to 5,500,000,000 in 1912. And these increases in exports of raw cotton have been in the face of a steady growth of American textile industries—the most recent development being the establishment of cotton mills in the cotton-producing section of the South.

Study of the trade statistics of the United States shows that as exports of raw materials and foodstuffs have declined, the exports of manufactured products have increased. Our total trade has not declined, in fact it has steadily advanced, and within recent years has grown at an amazing pace. Diminishing exports of farm and ranch products have been more than made up by other products, chief among which are the products of American factories. Of a total export trade of \$826,946,353 in 1880, fifteen per cent, or \$121,818,298 were manufactured products. By 1913 the total exports had nearly tripled—they were \$2,428,500,358—and of this huge total

*The Increasing
Importance of
Manufactures*

49 per cent, or \$1,185,104,509, were of manufactures. Then came the unprecedented demands of the World War, to which American industry quickly adjusted itself. Exports rose to \$2,769,000,000 in 1915 to \$4,333,000,000 in 1916, to \$6,290,000,000 in 1917. This sudden and dramatic increase in the world's demand upon American production resulted in increased exports of foodstuffs and raw materials, but the bulk of the war-time increases in our exports was in manufactured products.

<i>Yearly Average</i>	<i>Raw Materials</i>	<i>Foodstuffs</i>	<i>Manufactures</i>
1880-1889	\$257,012,051	\$335,402,721	\$150,053,277
1890-1899	286,653,934	419,604,241	241,031,397
1900-1909	460,922,051	499,351,467	585,713,271
1910-1914	705,286,523	421,413,853	995,831,058
1915-1918	668,931,679	1,184,979,292	2,837,110,688

UNITED STATES EXPORTS CLASSIFIED, SHOWING HOW MANUFACTURES HAVE INCREASED

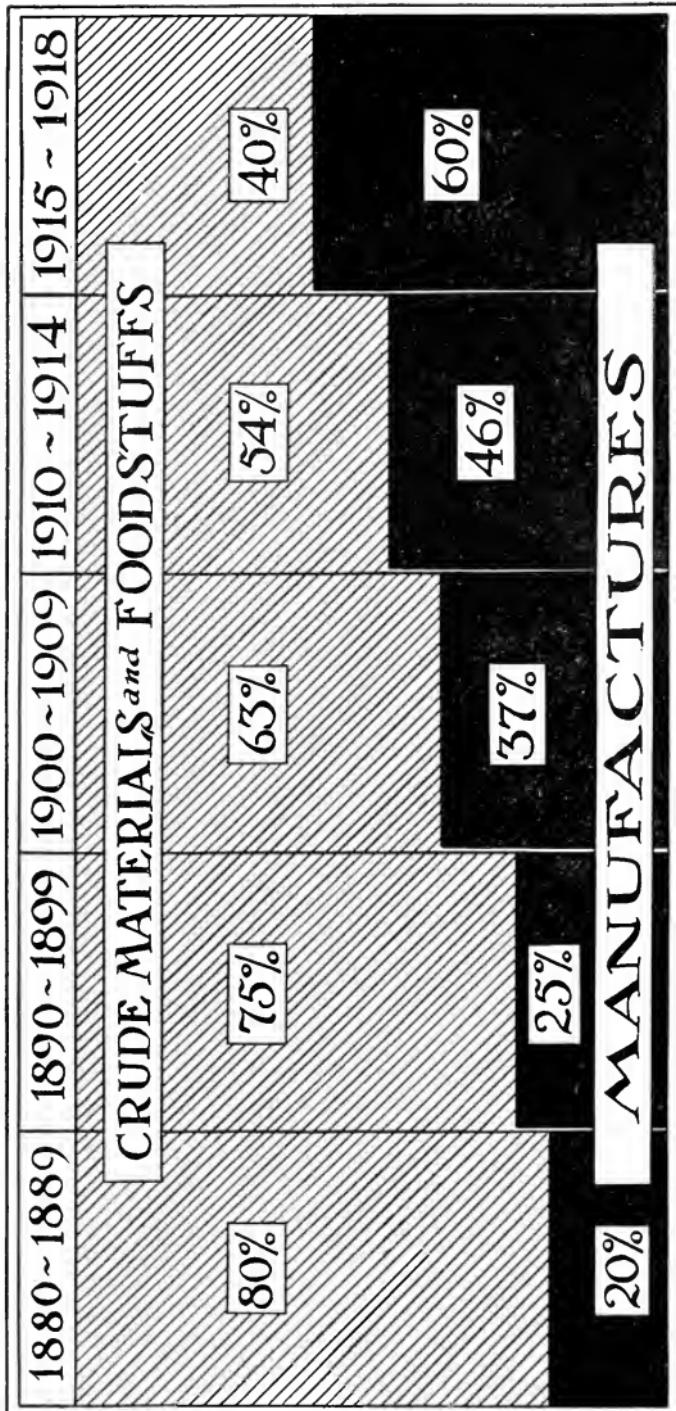
"Raw Materials" includes all crude materials for use in manufacturing; "Foodstuffs" includes food in crude condition and that partly or wholly manufactured; "Manufactures" includes both manufactures ready for consumption and manufactures for further use in manufacturing. In addition, there is a small volume of unclassified products, generally designated as "Miscellaneous," but as it in no year represents as much as 1 per cent. of the total exports, it is negligible in this comparison, and has been omitted from the table.

Various factors have contributed to the development of American industry. Chief among them is the demand of our domestic markets. American factories were established to supply American needs, and gradually increased their output until there were surpluses available for export. The coming of the Civil

War in 1861 was a great stimulant to the industries of the United States, for it suddenly demanded the munitioning of a great army and the concentration and control of production in the service of the nation. The opening up of the West and the development of agriculture also stimulated factory development, for factories were needed to supply the steel rails, locomotives, cars and other equipment required by the ever-increasing network of railroads, and to supply the machinery for ginning cotton, for harvesting grain, and for making flour.

With the development here of the greatest domestic market of any nation in the world, coupled with the presence here of the greatest variety of raw materials used in manufacturing, Americans have applied themselves to industry with a thoroughness which has won them leadership. Unhampered by customs and prejudices which have bound Europe, they have applied science to industry in ways which have many times increased their productivity—so that while American manufacturers pay higher wages than those of any other nation, it is American manufacturers who have produced the low-priced automobile, the dollar watch, the pocket camera.

The rise of our industries is shown not only in the constant increase in manufactured goods



HOW MANUFACTURES HAVE CLIMBED UPWARD IN OUR EXPORTS
 Statistics of United States Exports, Averaged over Representative Periods, Show the Steady
 Increase in Manufactured Goods

in our exports, but also in certain changes in the kinds of goods imported. Between 1880 and 1913 our imports of crude materials for manufacturing increased nearly five times, our imports of manufactures for further use in manufacturing tripled, whereas our imports of foodstuffs and manufactures only doubled. In 1860 only 21 per cent of our imports were for use in manufacturing; by 1910 the proportion was 55 per cent.

*Changed Relations
in Our Imports*

Because of our greater activity in manufacturing, we are requiring proportionately less manufactured goods of other nations. At the same time, we are drawing more and more upon other lands for the raw materials and half-finished products needed by our factories. The development of the automobile, for example, has called for enormous quantities of rubber—a product which cannot be raised in the United States and which of necessity we must import. The decline in our cattle-raising compels our shoe and leather industries to go to Argentina, Australia, and other foreign sources for hides.

In 1915, when our wheat crop passed the 1,000,000,000 bushel mark, exceeding that of any other country in the world, we nevertheless imported between 5,000,000 and 6,000,000 bushels of wheat. Although we raise two-

thirds of the corn of the world, we imported in 1914 more than 15,000,000 bushels. Although we supply half the world's copper, our importations of copper in 1914 exceeded \$50,000,000. We produce 40 per cent of the world's pig iron, double that of any other single country, yet our imports of pig iron over a recent decade totaled \$60,000,000.

Several reasons may be cited in explanation of these strange counter-movements of products.

*Why We Export
and Import the
Same Classes
of Goods*

First, the United States has become one of the great markets of the world for commodities. Producers find that

they can obtain better prices here in many cases than they can at home. We are willing to pay the Argentine planter a good price for his corn, while we are feeding the larger part of our own corn crop to swine; and the price the swine-raiser gets for his meat justifies his action. Our iron and steel industries on the Atlantic Coast find it cheaper to bring in pig iron and ore from abroad than from the Minnesota mines or from the Lake Superior furnaces.

Moreover, the bigness of our industries has given us special facilities for rehandling and remarketing materials. Our huge flour mills at Minneapolis handle large quantities of Canadian wheat. The bigness of our cop-

per industries has given us such excellent smelting facilities that the producers of Japan, Australia, and South America send us their raw ores to be smelted. Similarly, the European countries which have copper that has passed the smelting stage, but requires refinement, find it most economical to have the latter processes completed in the refineries of the United States—which are the greatest in the world.

A great incentive to the export of manufactures, instead of raw materials, is the increased profit which the selling nation gets from such goods. The more labor expended upon a product, the more valuable the product is. Flour sells for more than wheat, leather for more than raw hides, steel for more than pig iron, and pig iron for more than the ore. With every additional application of labor upon raw material, the product gains in value, and this all goes to the profit of the exporting nation.

*Manufactured
Goods More
Profitable*

If the manufacturers of a given country can import \$1,000,000 worth of leather, and then export this leather a few months later in the form of shoes at an aggregate price of let us say \$15,000,000, you can see what manufacturing means to the export figures. The gain in value is all money in the pocket of the

exporting nation. Some of it goes in the form of wages to factory operatives, some of it to factory upkeep, to selling expense, and some to each of the items entering into production and distribution, but from the national standpoint it is all gain. By the process of importing raw material and exporting this material as finished goods, the nation has added \$14,000,000 to its income from abroad. This furnishes a powerful incentive to shift its export trade from foodstuffs and raw materials to manufactured goods.

We can distinguish three phases in the foreign trade development of a nation. They are (1) *The raw material stage*, when exports are chiefly of foodstuffs and raw materials, and manufactured goods are imported; (2) *The home market stage*, when a special effort is made to build up manufacturing to supply the domestic market, and the proportion of foreign manufactured goods imported is greatly reduced; (3) *The foreign trade stage*, when the manufacturers have reached the point where they are producing a surplus in certain lines, and imports are chiefly of raw materials and exports are chiefly of manufactured goods.

Three Phases in Foreign Trade Development

The first-mentioned stage is the condition of most countries at the beginning of their

trade relations with the outside. Natural wealth is abundant, manpower is either scarce, as in the case of Australia, or backward and unskilled, as in the case of China. All the new and undeveloped countries of the earth are in this first stage—those whose lands await settlement, and those others that in spite of large population have vast natural resources awaiting development.

The second stage is arrived at when the land is practically all occupied, the natural resources are being worked on a fairly comprehensive scale, and the population has increased to proportions which make greatly increased demands upon production. This was the situation in the United States in the 80's, when, with more mouths to feed it not only had less surplus for export, but also a greater home demand for manufactured goods. The development of home industries was vastly stimulated, and we find the protective tariff policy gaining ground as a device to shut off the competition of foreign manufacturers and buildup manufacturing in the United States.

The third stage is the logical successor of the second. Here the home industries have expanded and multiplied to a point where their production goes beyond the needs of

the home market. The consumption of raw materials by these industries is enormous, so that the bulk of the imports are of raw materials and foodstuffs. Manufactured goods have risen to first place in the list of exports. In this stage a nation has a keen sense of the reciprocal nature of foreign trade, for it has not only become largely dependent upon outside sources of supply for its raw materials, but it has become dependent also upon outside markets for the disposal of its large surpluses of finished goods. For this reason, the tariff policy of such a nation is usually liberal. Reciprocity of trade has become a paramount interest.

The United States has arrived at this third stage. We are in the foreign trade era of our

*The United States
in the Foreign
Trade Era*

commercial development. The rapid growth of our overseas business during recent years, the steady increase in the per-

centage of manufactured goods in our exports, was the natural result of our vast industrial growth. The war, with its increased demands upon our factories, only hastened a movement which was already clearly defined. It was not the cause of America's emergence into the ranks of the great trading nations; it was only the accelerator, which quickened what was already well on its way. Our export inter-

ests are no longer concerned chiefly with the sale abroad of foodstuffs and crude materials. Manufactures have taken first place.

With this shift in the character of our exports, there has come a change in our position in foreign markets. We now have to take the initiative, whereas before it was the buyer who did this. Exporters of raw materials ordinarily do not have to seek markets. The buyers come to them. It is the bidding for the grain, the hides, the cotton, rather than the offering of the goods for sale, that is aggressive and competitive. With the exporter of manufactured goods, the case is reversed. The seller ordinarily has to seek the buyer, in strong competition with exporters in other nations. He is the active factor in the trading. The buyer is passive, willing to be sold, perhaps, but he must be convinced.

The foreign trade stage therefore calls for expert salesmanship as well as for more production. The exporter must go out into the field, and must win customers. He must up-build good will, he must meet competition, he must establish permanent connections. Details that under earlier conditions could be ignored or slighted, or left to the other fellow, must be scrupulously observed now. For the competition that he must meet is the aggres-

sive competition of the seasoned traders of Great Britain, Japan, Germany, France, and the other industrial nations. The new rôle is one of fighting for the world's trade.

VI

Fighting for the World's Trade

IN the summer of 1914, previous to the outbreak of the World War, the struggle for the ascendancy in international trade lay between three nations—Great Britain, Germany, and the United States.

Of the three, Great Britain held the leadership, intrenched behind a world system of commerce, long established and loosely organized but supported by control of the seas and by strategically-placed colonies. Germany, with its strong centralization of industry and its systematic coordination of production, commerce, and finance, was proving a strong competitor, pressing close upon Great Britain's supremacy in foreign markets.

Commercial Rivalry before the War

The United States, relying for half its exports on natural resources of foodstuffs and raw materials, had not felt so keenly as the other two the intensity of world competition in manufactured goods. It could hardly be said that exporting had been taken seriously

by the American manufacturers, in the sense in which British and German manufacturers had gone into that trade. In the older countries, exporting was a career, an interest occupying the thought and energy of a vast number of people. Great fleets of merchant ships had been built and were operated as auxiliaries to this export trade. British and German financial institutions had planted branches in foreign commercial centers in order to serve this trade. In America there was no such organization or collaboration of effort. A number of industries had gone out for foreign trade—some, like the United States Steel Corporation and the Standard Oil Company, on a comprehensive scale. But in proportion to the aggregate industries of the country, these exporters were few. The interest of the majority of manufacturers was largely centered upon the enormous home market, with its annual purchasing power of \$25,000,000,000—more than the combined export trade of the world.

In spite of this subordination of foreign trade in our business thinking and effort, the *U. S. Exports before the War* United States had attained an export trade of more than two billion dollars, being second only to Great Britain in total exports—though excelled by Germany in exports of manufactures

and therefore third in the classification if foodstuffs and raw materials be ignored. The standing of the three nations in exports in the ten year period from 1904 to 1914 was as follows:

	<i>Yearly Average 1900-1904</i>	<i>Yearly Average 1908-1912</i>	<i>Increase</i>	<i>Per Cent</i>
<i>United States</i>				
Total exports	\$1,402,824,000	\$1,873,219,000	\$470,395,000	33%
Manufactures	479,141,000	823,382,000	344,241,000	71%
<i>United Kingdom</i>				
Total exports	1,405,857,000	2,067,454,000	661,797,000	47%
Manufactures	1,123,089,000	1,638,265,000	515,176,000	45%
<i>Germany</i>				
Total exports	1,101,930,000	1,726,380,000	624,450,000	56%
Manufactures	721,210,000	1,164,260,000	442,050,000	61%

EXPORTS OF THREE NATIONS COMPARED, SHOWING PROPORTIONS OF MANUFACTURED GOODS IN TOTAL

Even so large an increase as 71 per cent in our exports of manufactures is not striking, however, when the actual figures are examined and considered in relation to our resources. This was demonstrated during the war, when American factories quickly adjusted themselves to the new responsibility thrust upon them, and within three or four years increased their exports in certain lines a hundred per cent at a clip—in the case of explosives, firearms, and other munitions of war a thousand per cent. American exports of leather manufactures rose from \$20,000,000 in 1914 to \$43,000,000 in 1917, of cotton manufactures from \$51,000,000 to \$136,000,000, of automobiles from \$32,000,000 to \$118,-

000,000, of machinery from \$115,000,000 to \$261,000,000. While the rise in prices of commodities accounts for a fractional part of these increases, the increased volume of exported manufactures was so enormous as to demonstrate beyond a doubt the statement that our pre-war foreign trade, in proportion to our industrialism, was far below that of our chief rivals.

It is not necessary to go into reasons why this is so. Many of them have already been discussed in this book, and others will easily suggest themselves. The important fact is that American industry has finally got into stride with world commerce on a scale somewhat commensurate with American resources, and that the experience thus acquired, the lessons learned, the good will established, the profits demonstrated, will not be forgotten or cast aside. The world has entered upon a new era in its international relations, commercial as well as political; and the United States has come into a new place in foreign trade.

We have assumed the export leadership of

Assuming the Export Leadership of the World

the world. Our wartime increases were not confined to the belligerent nations of Europe.

American exports to countries outside of Europe increased from \$1,069,916,800 in 1913 to \$2,417,880,458 in 1918. Our

exports to Asia outside of Japan increased from \$63,622,832 in 1913 to \$164,296,505 in 1918. To the nearby market of Argentina our exports nearly doubled in the five years. In hundreds of markets in Latin-America, in Canada, in Asia, in Africa, in Australasia, and the islands of the sea, newly introduced American goods have become established and are now well-known.

Moreover, the European markets are not war markets only, but as the demands of reconstruction show are peace markets of enormous buying power. The rehabilitation of factories in France and Belgium calls for the export of American machinery to re-equip these ruined plants. The rebuilding of the waste places of Europe, the opening up of the economic resources of Russia and the new nations of central and eastern Europe, the replenishment of Europe's stocks of all sorts of manufactured necessities and luxuries, are largely dependent upon the exportation of American products.

This does not mean that the United States has the field to itself, and can calmly wait for customers to come to it. While the great European industrial and trading nations were more seriously affected by the war than we were, their basic resources were unimpaired; and while their trade connections were in

many cases suspended, they were not broken. The good will established by generations of business intercourse was not easily lost. The cessation of hostilities found the nations ready to resume business at the old stand, with such modifications and limitations as the four years of war had entailed. Their economic condition, moreover, makes it imperative for them to export goods in order to get the foodstuffs and raw materials which they so seriously need; therefore strong competition may be expected not only from the British, but also from the German traders, and to a lesser degree from those of the other continental countries.

One commercial development of the war that bears a special significance in this con-

*Japan's Rise
in Foreign Trade* nection, is the rapid rise of Japan in foreign trade. The expansion of Japanese manu-
facturing during the war period is com-
parable only to that of the United States. Many industries increased their productive capacity several fold, and with the withdrawal of accustomed shipping from the oriental mar-
ket and the consequent curtailment of trade with Europe and America, Japan became the foremost supplier of many commodities in the Far East. Thus, from 1913 to 1918 Japan's total exports increased from \$316,230,106 to \$881,652,776. During the same period, her

exports to the parts of Asia outside of Japan increased from \$137,963,932 to \$484,000,000. The latter figure is greater than the total of the British exports to the same markets for the same year, so that the close of the war found Japan dominating the trade of Asia.

Japan during the war period also greatly increased her trading facilities, added to her merchant tonnage, and pushed out into the markets of Oceania, Latin-America, and other regions. Her trade with Australia and with Argentina, for example, shows striking relative growth, although it is actually not large. United States exports to British Oceania increased from \$52,623,477 in 1913 to \$102,707,-345 in 1918; Japanese exports to the same markets increased from \$4,318,987 to \$33,-838,538. In the same years, our exports to Argentina increased from \$54,980,415 to \$105,215,818; while the Japanese exports to Argentina increased from an insignificant \$711,183 to \$11,872,514.

There are therefore formidable rivals in the field and American exporters must frankly recognize the competitive nature of foreign trade. The demand exists for great quantities of goods; it is to our advantage and to the advantage of the world that we take our place in supplying these products, but we are not necessarily the only people who can supply

them. We must share the function of producing for world markets, and the extent of our share depends upon our resources and upon our attitude toward overseas opportunities and requirements.

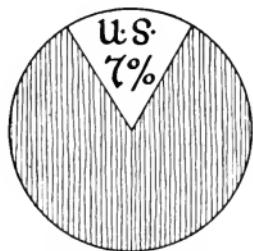
What is our preparedness to meet this world demand, and to hold and increase the new trade we have won? The answer is found first of all in our natural resources, and then in the industrial equipment of America and the new agencies recently created to facilitate and serve our foreign trade.

The United States has a land area of 3,500,000 square miles out of the world's total land

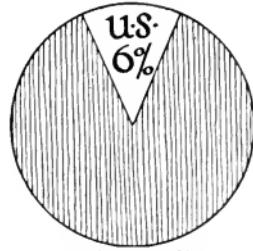
Resources of the United States area of 50,000,000 square miles not including the polar regions.

The United States has a population of approximately 100,000,000 people out of the world's population of 1,650,000,000. With only 7 per cent of the world's area and 6 per cent of its population, we produce from our fields, mines, and factories an output far in excess of the proportion which these percentages suggest.

Not only its natural resources, but the industrial resources of the United States are also unmatched in any foreign land. Pre-war statistics (Census Bureau's Summary for 1914) showed an investment of \$22,790,000,000 in manufacturing plants in the United



World's Area



World's Population



World's Corn



World's Cotton



World's Petroleum



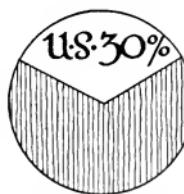
World's Copper



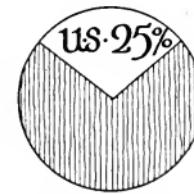
World's Iron



World's Coal



World's Manufactures



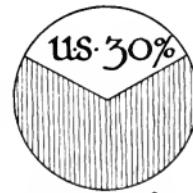
World's Wheat



World's Railways



World's Banking Power



World's Wealth

OUR PREPAREDNESS FOR FOREIGN TRADE

What six per cent of the world's population normally produces upon seven per cent of the world's land area

States, with an annual output of \$24,246,323,000. These figures put us in the lead of all nations in manufactures, and to them must now be added the enormous increase in manufacturing equipment and output which came as a result of the war's stimulus. The United States is the leading railroad nation of the world, with more than a third of the world's total mileage. It has two-thirds of the world's telephones. It has more than a third of the world's banking power. The importance of these factors in foreign trade has already been pointed out. America's possession of them in such abundance is its great strength in the present stage of our commerce.

Within recent years steps have been taken, both by governmental enactment and by individual initiative, to reinforce these basic resources. One of the most important was the creation of an American merchant marine, placing at the service of American shippers a great fleet of modern vessels, and making possible the establishment of direct shipping lines between this country and its new markets. This wartime addition to our industrial and trading resources included not only a large tonnage, but also numerous shipbuilding plants which place the United States in the lead in this industry also, and give assurance

The New American Merchant Marine

that ships as well as the goods carried in ships will now be an important item in our industrial output.

The possession of our own shipping facilities means that the large sums annually paid in freight charges by our American importers will no longer go to foreign shipping interests, but will be retained at home. Moreover, an American merchant marine may be counted upon to adjust its routes and sailings to the requirements of American shippers and the strategy of American trade. The crowning reason for the possession of a mercantile fleet of our own was shown in the early months of the World War, when American ports were choked with goods awaiting export and American factories were running on part time for lack of raw materials held up in distant lands. We learned then the danger of depending on a foreign delivery service, and it is not likely that the lesson will soon be forgotten. The American merchant marine is the greatest of our war-developed resources in the service of foreign commerce—not only of our own commerce but also that of the world. The destruction of more than 16,000,000 gross tons of shipping by the submarine left the world with an appalling shortage. Without the new American shipping the commerce of the world would be dangerously restricted.

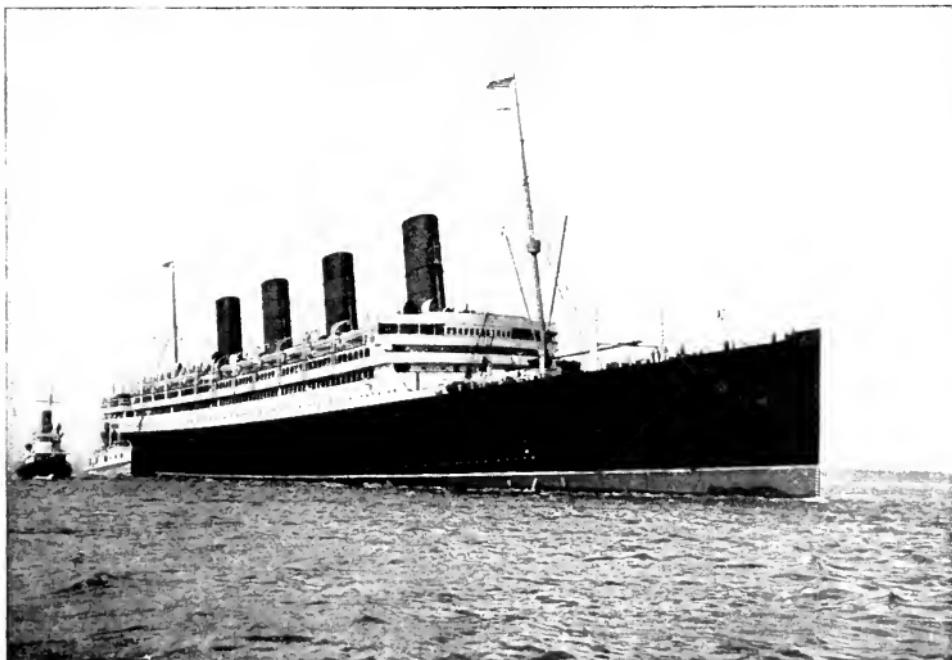


PHOTO BY EDWIN LEVICK

THE GROWTH OF THE WORLD'S MERCHANT FLEETS

The application of steam to ocean transportation was an important factor in increasing international commerce 20-fold during the last century.

Even before the outbreak of the war there was a movement in banking circles to give greater recognition to the needs of our foreign trade. *Extension of American Banking*
The enactment of the Federal Reserve Act has made it possible for some of the larger banks to establish branches abroad. This movement was accelerated by the rapid development of American overseas commerce in 1915 and the years immediately following. The Latin-American field in particular, which in spite of its proximity had few and inadequate banking connections with the United States, saw the establishment of numerous branches of American banks, one New York institution having twenty branches in Latin-America serving the important commercial centers of Argentina, Brazil, Chile, Cuba, Porto Rico, Uruguay, and Venezuela. Another American banking corporation at the same time had branches in such far-away markets as China, Japan, Java, India, and the Straits Settlements.

At the same time, American financial interests were showing a new interest in the industrial development of foreign countries—particularly those in South America which had theretofore depended on European investment for new supplies of capital. One of the biggest corporations born of the war has

undertaken the promotion of construction enterprises abroad, and part of its function is to secure the investment of American capital for these projects.

As has been pointed out earlier in this Unit, one of the big factors in the promotion of a nation's foreign trade is its export of capital, its investment of funds in foreign enterprises. No other factor is

*American
Investment
Abroad*

more important, in fact, to the up-building of permanent trade relations abroad, for these investments are direct feeders of trade. The new project in South America or China which secures its capital in the United States, will buy its equipment and supplies here also. Frequently, the investment funds never leave the United States, but are translated into the form of credits and thence into American goods. Often the foreign loan is extended on an agreement that supplies for the undertaking will be purchased in the United States. Moreover, the assistance rendered by American investors in foreign enterprises means the development of additional demand for manufactured goods—the building of a railroad stimulates new centers of population and new industrial projects along its route, the building of an electric plant or water works adds new conveniences which cre-

ate demand for electrical appliances, plumbing goods, and incidental wares.

Foreign investor is a new rôle for the United States, and it is one that means much to the growth and permanence of its future world commerce. Our participation in foreign loans to governments during the war was a big start in this direction; now we should translate this tendency more and more into everyday business.

With the improvement and extension of individual and corporate facilities for serving foreign trade, there has come a more liberal attitude of the law-makers toward foreign trade.

*Government Aid
in Financing*

In 1918 the government's billion dollar fund for financing foreign trade was made available through loans from the War Finance Corporation to American export firms, and thus the government became an actual backer of American foreign trade. This measure is intended to provide exporters with financial assistance, and to prove a steady influence in a period of readjustment.

One great problem facing the American exporter before the war was the intensity of the competition from abroad and the legal restrictions which handicapped him in organizing to meet this competition. In most of the European countries, particularly in Ger-

many, the foreign trade in particular lines was carried on by means of gigantic combinations whose pooled resources were far beyond that of any mere corporation, and whose powers for destructive competition were correspondingly large. The Sherman Law prohibited the forming of combinations in this country, and though it was generally understood that the anti-trust legislation was intended to protect the domestic trade from the danger of monopoly control, yet the letter of the law seemed to extend the prohibition to foreign trade also.

One of the acts of war-time legislation was the passage by Congress of the Webb-

*Cooperation
under the Webb-
Pomerene Act*

Pomerene Act which specifically exempts from the prohibition of the Sherman Law all agreements and combinations

for the purpose of foreign selling. Under this act a group of firms interested in foreign selling may form an export association, take out a charter for it, and go into the overseas trade as one big organization instead of as so many individual firms. Within less than a year after the Webb-Pomerene Act became effective, more than eighty export associations had been formed.

Not only through its assistance in financing export enterprises and in removing the legal

restraints which handicapped our efforts, but also in its extension and improvement of the various government aids to foreign trade—as represented in the Bureau of Foreign and Domestic Commerce, the Consular Service, and the like—has the United States within recent years increased its preparedness for foreign trade.

At the beginning of this century our whole dependence for commercial information from abroad was upon the Consular Service, under the authority of the Department of State. A few years ago the Department of Commerce sent abroad a group of commercial attachés and instituted a system of traveling trade commissioners. In 1919 there were eleven attachés, each assigned to a definite geographical division to promote American trade therein. The number of trade commissioners varies—we have had as many as thirty. The trade commissioners are not assigned to specific territory but to specific branches of industry, such as textiles or chemical manufactures or hardware, and their function is to investigate markets from the standpoint of their specialty and report thereon to headquarters in Washington. The information collected from these various sources abroad is published by the Bureau of Foreign and Domestic Commerce, of the Department of Com-

merce, either in the daily *Commerce Reports* or in special monographs, and in this form is available to American business men. In order to bring its information service more directly to the business public, the Bureau in recent years established a number of branch offices at convenient trade centers throughout the country.

In 1919 the Department of State organized a "Coordinating Committee on Foreign

Unifying the Government's Trade Aids Trade," made up of representatives of all the government offices in any way concerned with such trade.

The Acting Secretary of State explained the purpose of this central committee to be "to provide advisory and supervisory machinery for unifying the work of further extending" American business abroad. At the same time a Special Foreign Trade Committee was appointed, under the chairmanship of our former consul-general to Berlin, to assist the government in formulating a comprehensive foreign trade policy.

Thus, all the forces concerned in foreign trade were stimulated to a new appreciation of its importance as a result of trade developments forced by the war. Industry, banking, shipping, all have become aware of the new place in international affairs to which the United States has suddenly come, and each has

been quick to adjust itself to the changed relations. The government has recognized the new demands and opportunities opened to our trade, and has lent its aid and encouragement to our traders.

We have gained something that we did not have before—an international point of view. As a people we think internationally now, whereas before 1914 it was only in spots that such thinking was indulged in. For four years our shipments of supplies to Belgium and other European countries were common newspaper talk—and not hidden away among the market quotations but emblazoned on the front page. We have come into a new atmosphere, and have a different attitude. It is this new attitude that has animated our post-war thinking and doing, and that makes us confident in assuming our new place in the markets of the world.

VII

New Markets for Old

WHAT are the new markets of the world into which we have come? Actually, they are not new markets, but old ones—markets with which most of our experienced exporters were already familiar; though in the case of a man just entering foreign trade every overseas market is of course new. But it is important to remember that the markets abroad are not untried fields; some are less known than others; but in practically all of them important pioneer work has already been done and there is an experience upon which the new exporter may draw for guidance.

The principal markets abroad have been and are in Europe. Our pre-war trade was predominantly with Europe. The following table of American exports classified according to geographical divisions shows how our sales to Europe compare with those to other divisions:

*Where Our
Exports Have
Gone*

<i>U. S. Exports to</i>	<i>Yearly Average 1900-1904</i>	<i>Yearly Average 1910-1914</i>	<i>Yearly Average 1915-1918</i>
Europe	\$1,054,378,627	\$1,350,299,321	\$3,258,370,902
North America	207,698,578	501,094,964	902,894,778
South America	42,656,495	121,028,013	213,386,046
Asia	59,351,701	98,445,622	305,196,899
Oceania	36,072,182	70,311,735	105,196,135
Africa	28,299,610	24,638,468	45,066,803

Exports to Europe are more than all our other exports put together. Europe's annual purchases in the five years preceding the war were 62 per cent of our total export trade; but it is important to know in this connection that two-thirds of these exports to Europe were foodstuffs and raw materials.

Europe is itself so great a manufacturing section that it has in normal times comparatively little need of our factory products. Or course this was not the case during the war, nor in the reconstruction period immediately following the war, but under ordinary conditions Europe's buying is mainly of foodstuffs and raw materials and its selling is mainly of manufactured goods. Cotton, copper and pig iron are three staples supplied by us to Europe in great quantities. Because of our unique position in the petroleum industry, both as producers and refiners, Europe calls on us for refined mineral oil and lubricating oils, which rank as manufactured goods. But for the bulk of manufactures, especially those fully finished, its demand is small in comparison with European population and wealth.

*Europe as a
Customer*

In saying that this demand is "small" we must recognize that it is only relatively so. For even in normal times Europe's actual purchases of American manufactures are a considerable total; even though only one-third of our exports to Europe were manufactures, that third was bigger than our total exports to South America, Asia, and Africa combined. The largest foreign market for American locks and hinges is the United Kingdom. Our sewing machine manufacturers sell more of their product in the British Isles than they do in the whole of South America.

The war caused a sudden leap in the percentage of American manufactures exported to Europe; and the increases were not only in implements of war and munitions, but in peace goods as well, and in trade with neutrals. The vast relief work carried on in Europe by the Red Cross and other organizations introduced numerous American products new to the masses of Europe, and it is predicted that many of these products will be called for in the future in the course of normal trade. The rise of suppressed nationalities in Central and Eastern Europe under democratic forms of government is interpreted to mean a rise in the standards of living among the masses of those regions, and in consequence an increase in the demand for manufactured goods.

America will share with the industrial nations of Europe the privilege of supplying these re-born markets.

Sometimes the fear is expressed that labor or political disturbances or post-war poverty in Europe may cut us off from this vast market. Undoubtedly such possibilities must always be seriously weighed. But no conceivable conditions can do more than temporarily check the steady flow from this country of food, raw materials, machinery, and other necessities of European life and industry.

Outside of Europe and the United States, industry is largely localized, factories are few and of small-scale, production is largely of raw materials. Canada, it is true, has considerably increased her manufacturing activities within recent years, but she is still dependent upon outside industries for much of her finished goods and our American manufacturers have found there a profitable and growing market. Central and South America have very little manufacturing; Africa and Oceania are still predominantly agricultural, as is Asia also, except for the recently developed industries of Japan.

Thus there are two distinct types of markets for American goods, one manufacturing and the other non-manufacturing. In view of the gains that manufacturers have made in our

exports, we can readily understand why the less-developed nations have loomed so large in

Non-Manufacturing Countries Our New Customers

our popular discussion of foreign trade. It is because these are the markets which are themselves non-manufactur-

ing. They must bring in from outside the bulk of the manufactured goods needed by them. And so it is that our new customers are these less-developed lands whose industries are predominantly agricultural, mining, fishing, forestry, and the like.

The classification of exports on page 125 shows how rapidly this trade has increased since 1880. Whereas our trade with Europe tripled during the years covered by this tabulation, our trade with other continents increased five-fold. It was natural that in the period when foodstuffs and raw materials were diminishing and manufactures were increasing in our export totals, our greatest gains in trade should be with the countries where manufactures were few and the demand for them increasing.

Where Our Imports Have Come from

As our exports have grown, our imports have grown too; and it is no surprise to find that the greatest percentage of increase of imports has been in our trade with countries other than those of Europe. The very fact



A SHEEP RANCH IN NEW SOUTH WALES, AUSTRALIA

Through the use of the refrigerating system the meats of Australia and Argentina can be placed on the markets of every nation, and have been displacing American meats in foreign countries.

of our industrial development would cause us to expect this, for with the growth of factories came an increase in demand for raw materials. We have gone to the less-developed countries to supplement the raw materials produced at home. The following tabulation shows our imports from the grand divisions of the world during representative periods:

<i>U. S. Imports from</i>	<i>Yearly Average 1900-1904</i>	<i>Yearly Average 1910-1914</i>	<i>Yearly Average 1915-1918</i>
Europe	\$478,254,794	\$836,498,523	\$563,164,139
North America	162,957,055	347,135,866	687,394,194
South America	110,322,461	206,857,911	440,635,275
Asia	135,682,823	239,104,117	531,691,668
Oceania	20,305,457	36,705,440	90,070,657
Africa	11,125,588	22,572,813	56,411,024

The change in the import movement, when considered by continents, is not as sharply defined as is the change in exports. Our imports outside of Europe were greater in 1880 than our exports were. We have always required, as we now do, the coffee, sugar, cacao, and spices of the Tropics, and have always purchased certain manufactures from Europe. That there has been a shifting, however, is shown by the fact that whereas 56 per cent of our imports were from Europe in 1880, the proportion had gone down to 52 per cent in the period 1900-1904, and to 49 per cent in the period 1910-1914, with a corresponding increase in the imports from other continents.

This movement has been even more rapid in recent years. Between 1890 and 1914 our

imports from Europe doubled, but in the same period those from North and South America

trebled, and those from Asia and

Africa quadrupled. The tendency

received additional stimulus after

1914, the wartime demands of

American factories making ever-increasing requisitions on the raw materials of other lands. Thus, our imports from the Dutch

East Indies increased from \$4,360,000 in

1914 to \$56,720,000 in 1917, to name only

one of the more distant markets. This increase in purchases from the Dutch East Indies in-

cluded such goods as cacao, rubber, spices, tea,

tin, and cinchona bark (from which quinine is

made). Two of the biggest items in our total import increase were rubber and tin, Ameri-

can imports of rubber increasing from 115,-

880,641 pounds in 1913 to 405,638,278 in 1917,

and of tin from 104,282,230 pounds in 1913 to

143,636,782 in 1917.

Another effect of the war was to bring America into direct touch with many markets which theretofore it had dealt with through middlemen. In the pre-war organization of commerce, London and Hamburg were great clearing houses for all sorts of commodities from foreign nations. The raw products of Russia and the Baltic were gathered at Lon-
don and Hamburg and thence redistributed

all over the world. Raw materials from Asia, Oceania, South America, and Africa were brought in by the British and German merchant ships, and in these reexport markets sold to buyers in Europe and the United States. This reexport business was conducted on an enormous scale; and existed not only because of the tireless service of the British and German mercantile marine in gathering up these products from everywhere, but because of the existence in London, and to a lesser degree in Hamburg, Antwerp, and Rotterdam, of an unfailing market for such goods.

With the outbreak of the war these markets were suddenly interrupted, the streams of shipping were deflected into new trade routes, speculation was stopped, and foreign buyers no longer flocked to London and the other re-export centers. American manufacturers requiring tin, rubber, wool and other raw products had to go to the sources of supply and buy tin direct from Singapore instead of from London, their rubber from Brazil and the East Indies. In 1913 the United States imported 40,391,234 pounds of rubber from England and only 13,504,720 from the East Indies; in 1918 the imports from England had decreased to 6,627,165 pounds while those from the East Indies had increased to 265,040,618. Similarly,

*The War and the
Reexport Markets*

our tin exports from England in the same period decreased from 54,632,163 to 18,076,-055 pounds, while those from the East Indies increased from 42,909,438 to 120,040,036.

It is impossible to forecast what permanent effect these changes will have on the practise of reexporting as it was carried on in Europe prior to the war. It is not difficult, however, to connect certain changes in our American trade relations with these increased imports from the sources of raw materials. Our exports to the Dutch East Indies increased from \$2,480,000 in 1914 to \$18,960,000 in 1917. Among the lines in which increases were shown are hardware, iron and steel manufactures, tools, wire, leather belting, boots and shoes, musical instruments, lubricating oil, paints. Our exports to British Oceania increased from \$53,356,844 in 1914 to \$102,707,-345 in 1918, some of the items registering an increase being cotton goods, hardware, wire, turpentine and other naval stores, lubricating oil, paints, and gasoline. Increases are also shown in our exports to Asiatic countries, the Latin-American republics, and other nations from which we have recently increased our volume of imports. Trade is reciprocal—it is a matter of exchange—and it is but natural that we should become bigger sellers to those

countries from which we become bigger buyers.

Our trade position is also indicated in our balance of trade. An excess of exports over imports is commonly called a "favorable" balance of trade, on the theory that the position of seller is economically stronger than that of buyer. (There are, however, many hidden elements in the balance of trade which may make an excess of exports over imports only an apparently favorable balance—such elements, for example, as the ownership of our securities abroad, requiring large interest payments from this country, and the transfer of credits. These may more than overbalance any difference in merchandise exports.) Actually, the most favorable condition is where there is perfect balance between exports and imports—when the trade is an exchange of merchandise, instead of—as in the case of the greater part of our 1918 balance of trade—an exchange of our merchandise for Europe's promises to pay.

The final year of the World War found the United States with the greatest surplus of exports over imports in its history—or in the history of any nation. Our foreign trade in the fiscal year ending June 30, 1918, was valued at \$5,928,285,641 of exports and \$2,946,059,406 of imports. If we include our trade

*The War and our
Balance of Trade*

with our dependencies, as Great Britain does, the totals exceed six billions of exports and three billions of imports. Analyze these figures and you find one group of nations, principally the belligerents in Europe, to which we exported enormous quantities of goods on credit, taking correspondingly little merchandise, and another group of nations from which we increased our imports on a tremendous scale, far out of proportion to our increase in exports to them. The first group at the end of the fiscal year in 1918 owed us \$3,989,089,995 on merchandise balance, while we owed the other group \$962,811,468.

Actually, the excess of exports against us in this latter group of countries in 1918 was greater than our whole trade with them in 1913. For example, we owed the Straits Settlements \$140,282,932, we owed Argentina \$121,912,530, Chile \$99,383,620, India \$89,-289,551, China \$81,757,613, Cuba \$51,478,980, and lesser amounts to Japan, the East Indies, Brazil, and a score or more of other countries. To offset this balance we made large shipments of silver to India, Hong Kong, and China proper, we arranged a government credit with Argentina for carrying what we owed her as a deposit in our federal reserve banks, and similar banking arrangements for

interchange of credits were made with other nations.

Two remedies are open to us in correcting, and safeguarding against, such an unbalanced condition. The first is the increase of our merchandise exports to these markets in the Orient and in Latin-America. The second is the increase of our investments abroad—the export of capital.

America's destiny in foreign trade, as has been pointed out, lies among the manufacturing nations; and this means that our greatest fields for *Bigger Sales to our New Customers*

expansion are in the less-developed regions, the very places from which we have recently increased our imports in such enormous volume. We have increased our exports also, as earlier pages of this chapter have shown, but the increase in exports has not been by any means equivalent to our increased buying. Now that we have become big-scale customers of these markets we are in a position to expect increased openings for our manufactures and to make our trade truly an exchange of merchandise.

New opportunities are opening also to American investors. One important effect of the war is the stimulation of local industries in all parts of the world—the quickening of ambition and enterprise. In South Africa and

in Australia numerous undertakings have been started, and the same is true of many parts of South America. India's cotton industry has been expanded and improved, and in China there has been a considerable enlivenment of trade, with numerous railway, mine-development, and industrial projects broached. In many of the islands of the Pacific the same tendency is apparent, so that it could truly be said at the close of the war that there was scarcely an inhabited part of the globe in which the spirit of progress, of advancement in civilization, was not dominant. The war-scourged countries were looking forward to reconstruction; the distant lands were looking forward to closer relations with Europe and America; the less-developed nations were ambitious for fuller attainment of the comforts and conveniences of civilization.

This situation brings great opportunity to the American holders of capital. We seem destined to play somewhat the same rôle in the development of the backward nations that Europe played in the development of our Great West—we are called upon to supply capital for the development of the natural resources of the countries, for the building of industries, railroad, telegraph and telephone systems. How this movement of capital links

UNITED STATES EXPORTS

	1915	1916	1917	1918
Europe	\$1,971,434,687	\$2,999,305,097	\$4,324,512,661	\$3,738,231,162
North America	477,075,727	733,024,674	1,163,758,100	1,237,720,614
South America	99,323,957	180,175,374	259,480,371	314,564,482
Asia	114,470,493	278,610,881	380,249,708	447,456,515
Oceania	77,764,725	98,775,828	109,314,490	134,889,500
Africa	28,519,751	43,591,031	52,733,064	55,423,368
	<hr/>	<hr/>	<hr/>	<hr/>
	2,768,589,540	4,333,482,885	6,290,048,394	5,928,285,641

UNITED STATES IMPORTS

	1915	1916	1917	1918
Europe	\$614,354,645	\$616,252,749	\$610,470,670	\$411,578,494
North America	473,079,796	591,895,543	766,112,537	918,488,901
South America	261,489,563	391,562,018	542,212,820	567,276,702
Asia	247,770,103	437,181,464	615,217,463	826,597,642
Oceania	52,522,522	96,225,991	65,328,379	146,205,707
Africa	24,953,081	64,765,745	60,013,316	75,911,957
	<hr/>	<hr/>	<hr/>	<hr/>
	1,674,169,740	2,197,883,510	2,659,355,185	2,946,059,406

WHAT HAPPENED TO AMERICAN FOREIGN TRADE DURING FOUR YEARS OF WAR

Note the decline in our imports from Europe, and the rapid increases in those from other continents—the increases from Asia and Oceania being especially significant. In exports, our greatest actual gains were on European trade, though South America and Asia show the greatest relative increases.

up with the movement of merchandise from the nation, has already been shown.

The situation brings great opportunity, also, to the American producers of manufactured goods.

It will not end with the supplying of machinery for the new mines and factories, and

*Permanent
Markets as
well as New*

the supplying of equipment for the new railroads, water works, electric power plants, and other projects. For with the coming of these industrial developments and public utilities, the populations which they serve will be lifted to higher standards of living, and will demand better houses, better clothes, better food, more of the luxuries of life. New markets will be created for American textiles as well as for American cotton. New markets will be created for American watches and automobiles and hardware, as well as for American steel. New markets will be opened to the American washing machine, as well as to the sewing machine; to the American breakfast food, as well as to packed meats, canned fruits, and bottled condiments. Typewriters, phonographs, telephones, office furniture, building material, paper, pins and needles, rubber goods, screening and electric fans—there is not a product of American industry which will not find an enlarging place in these new markets. And

the markets are not only for a few years of reconstruction, they are permanent.

The future of trade depends on the future of industry. Signs are abundant of a great industrial development within the next half century that will be world-wide in its scope and permanent in its results. One of these results will be a steady equalizing of the standards of living, greater inter-communication between the nations, and a greater exchange of goods across national boundaries.

*The Future
of Trade*

The application of modern sanitation methods and of artificial refrigeration will aid the engineer and the industrialist and the trader in opening up the vast undeveloped area of the Tropics. This one zone offers unlimited opportunities for trade. The new era of international political cooperation insures greater political security in the governments of the tropical countries, and will thus decrease the greater single handicap to their development.

The same sort of enterprise that will rid the Tropics of the plague of insects and disease, will rid China and India of their disease of periodic famine. The water powers and minerals of those lands will be utilized, and new industries will be born for the employment of the vast populations resident there. Everywhere new resources and new oppor-

tunities for production will be opened up by the extension of steamship routes, railroad lines, and motor truck service. The aircraft has already become a commercial factor, and the future development of this new instrument of transportation is unlimited. Science and invention will play an even greater part in the service of production and trade than they played in the service of war.

As in the past, so in the future, steam power will be employed on sea and on land in open-

Steam Power and Foreign Trade ing new territories. Steam-driven vessels are now reaching practically all parts of the earth. The turbine engine is increasing the rate of speed; steam loading and unloading machinery is cutting down idle time at the docks; and steam power is being utilized to drive refrigerating plants whereby perishable products can be carried long distances through varying climates.

The railroads will continue to be the great arteries of inland trade. Many countries have been developed only along a narrow fringe adjacent to the ocean or to inland lakes and rivers. Products from the interior are still transported to water routes with great difficulty. Consider, for example, the immense sections of China which are reached only by human porters and pack animals. Only along

the banks of the great rivers has trade sprung up in that country, and that is because the rivers are the chief highways of commerce. When we consider that China has an area greater than that of the United States and more than three times our population, and yet has only 6000 miles of railroad to compare with the United States's more than 200,000 miles, we realize what a future is in store when China's vast hinterland becomes accessible.

The enormous power of electricity will be turned to further account in production, and thus in increasing international trade. The use of electricity for transportation, heat, light, power, and in the processes of industry promises yet more notable records of productivity, the production of larger surpluses, and thus a cheapening of costs and a wider distribution of commodities.

*Electricity
and Water
Powers*

This application of electricity to the practical needs of the world makes possible the utilization of numerous water-powers that were of only nominal value before. The mountain streams of Norway are rapidly being harnessed. The Riksgränsen Railway in Norway, the most northerly in the world, is now electrified and the cost of transporting its principal item of freight, iron ore, has been

much reduced. In northern Chile electricity is being transmitted 87 miles inland to develop a copper mine, and the eventual electrification of railways crossing the Andes has already been suggested. What has been accomplished at Niagara Falls and Keokuk is well known to Americans, but the enormous resources of "white coal" in Africa, Asia and other undeveloped parts of the earth are not generally known. The utilization of these will come in a few years.

Our new trade relations bring us into vital touch with all these movements for the development of latent resources, for the expansion of industry, for the extension of trade. They bring us

*Competition in
Foreign Trade*

into touch not only with customers and their interests, but also with rivals and their interests. In spite of the enormous burden which it carried during the nearly five years of war, Great Britain never lost sight of its trade interests; and though in the stress of the emergency it was necessary to neglect many details which would have been scrupulously looked after under less difficult circumstances, the British exporter really carried on a considerable trade during those perilous days. Japan, as has already been shown, pushed its industry at quickened speed, and largely extended its trade during the years of war.



PHOTO BY BROWN BROS.

OPENING UP THE "DARK CONTINENT"

A bridge, built of American steel, on the Cape to Cairo railroad in Africa

While European industrial countries were to a great extent prostrated by the war, and their revival to full pre-war strength will undoubtedly be a matter of years, this does not mean that they will not be formidable rivals. Their very necessities make the European countries push out for trade, for few of them are self-sufficient. Only by trading can they get the needed products which are not produced within their borders, and only by trading can they get back on a profit-earning basis.

Such competition can be met only after intelligent study and thoroughgoing preparation. Such a trade future can be realized only by active effort. The new trade relations of which the present gives such brilliant promise will be arrived at by individual manufacturers and merchants and traders and financiers and investors throughout America taking up this subject of foreign trade as a practical interest and giving to it their best thought and effort.

VIII

The Exporter's Problems

WHAT is involved in this foreign trade enterprise of which we have been speaking—and in which American manufacturers and merchants have lately made such notable progress?

Applying the Principles Knowledge of the national and economic factors furnishes only the foundation for foreign trade practise. They are basic, and cannot be ignored nor neglected, but beyond them are the particular applications of the principles to the individual exporter's problems. The man contemplating overseas trade wants to know the "how" and the "why" of a great many detailed things, and his success is directly affected by his knowledge of these details.

How can a manufacturer or trader get into exporting? What methods of distribution are open, and which is most effective? What resources of capital are necessary? How extensive an organization is required? What adjustments in price policy? What credit concessions? How are collections made? What

are the details of consular regulations, documentation, and other formalities involved in overseas shipping? Such questions are typical of the hundreds that arise in the practical mind of the business man as he considers the export field.

Most of the questions cannot be disposed of by a standard answer. Conditions vary as the exporter's line, his markets, and his competition changes, so that the answer in one case might be quite different from the answer to the same question under changed circumstances. Apart from a few matters of procedure which are standardized, such as documentation and shipping regulations, a manual of cut-and-dried answers to all problems of exporting is quite impossible. Problems must be met individually, and the exporter must use brains in fitting principles and methods to particular needs.

Take the case of General Manager Smith, of the Triangle Manufacturing Company, in the incident described in Chapter I. Assume that it is decided to follow up the inquiry of the Ceylon merchant and go after that business. In this case the most serious problem of the exporter is already disposed of—the sales problem. The case would seem to be an extremely simple one—simply that of filling an

*When there is no
Sales Problem*

order that came in on its own initiative, simply that of selling a man who is eager to be sold.

But in practise it is not so simple as that. A great many important details remain. First of all, the Triangle manager must determine the price, and this involves a decision as to price policy. Shall he quote his domestic price? This plus the freight and other charges incidental to getting the shipment delivered in Kandy might make the goods too expensive. The exporter must always bear in mind the fact that competition exists, and even in a case such as this in which the customer frankly recognizes the inferiority of competing goods it is by no means always the best policy to quote "all that the traffic will bear." If permanent relations are aimed at, the price must be one that the customer regards as fair and warranted by the quality of goods and service rendered. In Unit III of the Course, the subject of price policy will be taken up in detail, but here it should be remarked that the policy finally determined upon should be the result of careful study of the market and of competing lines as well as of one's own product.

The inquiry from Ceylon asks that the quotation be "best terms on ten grosses cif." This

means that the customer wants a price which includes, in addition to the manufacturer's selling price, the insurance and freight charges involved in transporting the goods to Ceylon. In foreign trade, prices are usually quoted C.I.F. (cost, insurance, freight), though some business is transacted on the F.O.B. basis (that is, the price quoted simply covers selling price and transportation to ship, or "free on board" at a designated point, leaving the purchaser to arrange for ocean transportation and insurance). Prices may also be quoted F.A.S. (free alongside), C.I.F. & E. (in which the C.I.F. price includes also the cost of exchange), and C.I.F. & C. (which term is used in dealings with export commission houses, and means that the price includes not only the ordinary C.I.F. items but also the merchant's commission for handling the order). C.I.F. business requires that the exporter keep informed as to rates of shipping and marine insurance to the foreign markets. During the wartime period, when rates would frequently change several points overnight, this was a difficult task; and even in normal times transportation to certain distant and little-visited markets is irregular both in service and in cost. But ordinarily, to established markets on regular trade routes, rates are fairly steady and quota-

*Quoting
the Price*

tions may be obtained on short notice from steamship and insurance agents.

Before quoting a price, therefore, the Triangle manager would get a calculation as to the freight charge and insurance on ten gross spring hinges. In a small order, slight variations in the rates either way would have no appreciable influence, but in the case of a large order even a fractional difference may make the margin between getting the order and losing it. Thus you find the successful export manager a keen student of rates. The big concerns have a traffic department specializing on this one task of keeping informed as to overseas transportation service and charges.

After the Triangle manager has figured his selling price and added thereto the freight and insurance, he has still another detail to look after before cabling the Ceylon merchant. The merchant

The Problem of Credit
has asked for "best terms," and this implies that he expects credit. What credit is the exporting manufacturer in the United States willing to extend to his foreign customer? Here again the answer depends upon the particular circumstances, upon the custom of the market, the reputation and financial strength of the customer, the existence of banking or other financing facilities between seller

and buyer, and all other factors affecting the prompt collection of the settlement when due. These considerations will guide the exporter in determining what terms he shall extend to his foreign customer, and his choice will be one of the following:

1. Cash with order.
2. Cash against documents in New York.
3. Documents against payment.
4. Documents against acceptance of draft at sight, 30, 60, 90, or 120 days.
5. Open account or open credit.

The details of these several methods of payment vary, and will be discussed at length in a subsequent Unit of the Course. The credit standing of the customer will determine in a large measure what terms the exporter is willing to grant; and credit in foreign business like credit in home business depends upon information, upon what the seller knows of the character, capability, and financial responsibility of the buyer.

In the case of the inquiry from Ceylon, the Triangle manager would have at his disposal first the references mentioned in the customer's letter. The Bureau of Foreign and Domestic Commerce, or perhaps his local chamber of commerce, could inform him as to the credit terms usual in Ceylon. Information as to the rating of this particular cus-

tomer might be obtained from the mercantile agencies or other credit-reporting concerns which have foreign connections. Under the circumstances, the Triangle manager would have to base his judgment as to the credit risk upon such information as he could hastily gather, whereas in an established direct exporting business he would have a credit department fully organized to look after such inquiries, equipped with considerable credit information of its own and with connections which would enable it to get prompt and reliable reports of new markets and new customers.

Sometimes the credit problem is a much-involved one, requiring the supply of capital to the foreign buyer and intimate connection with the financing of his venture. Take for example the case of a manufacturer who has the opportunity to supply machinery for a new industrial project in China. The Chinese company is willing to buy his machinery, but it requires capital, and its purchase of the machinery is conditioned upon its receiving financial assistance. This assistance may be in the form of notes or other securities accepted by the American manufacturer in part payment for his goods, or, if the foreign project is a large one, it may assume

*The Problem of
Financially Assist-
ing a Customer*

the form of a bond issue floated in this country. The transaction in the latter case involves the export of capital as a prerequisite to the export of goods. In any event, the manufacturer has a problem which brings up questions of international relations, economic factors, financing, and law. It calls for the expert attention of his banker, and requires thorough investigation of the foreign project, its prospects, its sponsors, their responsibility, and all related factors. In contrast, the problem of the Triangle manager is simplicity itself.

To return to his transaction with the Ceylon merchant: With the question of price and terms settled, the manager would be able to cable a quotation. Upon its acceptance, he would prepare to ship the order. Here again he would run into problems different in detail from those met with in domestic trade.

For example, there is the problem of preparing the goods for foreign shipment. Proper packing is practically part of the cost of manufacture, and is so regarded by the modern manufacturer. But too often the manufacturer whose packing is all that it should be for domestic shipments gives little thought to the special requirements of overseas shipments. Not only is there the usually rougher handling of packages to be

Packing for Export

considered, and the greater strain entailed by longer transit, but there is the extra risk of pilferage, injury by moisture while crossing the tropics, the requirement of examination by customs officials, and local handling methods in the foreign market. In some ports goods are unloaded by machinery, the packages being piled into a big rope net laid on the floor of the ship hold, the net when full being lifted by electric cranes. The strain upon an individual crate in the jumble of this operation is fatal to poor packing. In some European ports the unloading is done by hand, stevedores carrying the boxes, bales, and crates up from the hold and simply dropping them over the rail to the pier twelve or fifteen feet below. Huge mats of hemp on the pier soften the fall, but only a well-made package can withstand this treatment.

Some countries have governmental regulations as to the packing of certain commodities. In some, duties are levied on gross weight, and this is a factor in ultimate cost. Not only security, but also compactness should be sought after by the overseas packer, for ocean freight is sold by cubic measurement. Elmer R. Murphey is authority for the statement that the reason for the success of English bathtubs in Australia, in competition with American tubs, is the fact that they are made with sloping

sides and pack five in a crate, whereas the same size crate will hold only three American tubs. Thus the transportation cost of three American tubs is equal to that of five of the English make.

With the goods packed, the manufacturer has as his next task that of actually shipping the order. This problem may be disposed of by turning the shipment over *Shipping Details* to a forwarder, who for a consideration will attend to all technical details of shipping and delivering the goods to the consignee, taking full responsibility. The forwarder is a middleman who deals in transportation, and demand for his services is increasing in American foreign trade.

But let us suppose that the seller himself looks after all details. The shipping details include (1) reservation of cargo space, (2) securing shipping permit, (3) securing dock receipt, (4) making out statement of weights, measurements, and rates, (5) drawing up the export invoice, (6) making out the shipper's export declaration, (7) making out the consular invoice and such other consular documents as may be required, (8) drawing up the ocean bill of lading, (9) negotiating the insurance.

A tenth step is that of completing whatever arrangement was settled upon for financing

*Financing
the Shipment*

the order. This is dependent of course on the terms at which the goods were sold. The usual method makes use of some form of draft, or bill of exchange, which the exporter may discount at a bank and thus obtain cash. Proper handling of the draft requires that it be accompanied by various copies of the shipping documents as evidence of the shipment and sale. A problem in dealing with remote small markets is that of finding banks that have suitable connections and facilities.

When all necessary documents have been drawn and all requirements of governmental authorities, transportation companies, insurance agencies, and other interested factors have been met, the manager of the Triangle Manufacturing Company writes to his new customer in Ceylon, advising him of the shipment, naming the vessel and date of shipment, together with details as to the financing, insurance, and other matters. This completes the service of the Triangle Manufacturing Company in this particular transaction, provided no accidents occur before delivery and provided no difficulties arise in connection with the collection of the draft.

The case considered above is that of a manufacturer filling an unsolicited foreign order. When the export undertaking, as is usual, in-

volves also all the prior steps of securing orders from abroad, the problems are even more difficult and call for a greater degree of business judgment and executive skill. Take the case of a firm which is keenly interested in the possibilities of exporting, and is considering how best it can go into the foreign field.

Perhaps the first question that would arise in the mind of the executives of such a firm would be, What is it going to cost?

Capital requirements are a primary consideration in any proposed ex-

Capital Requirements

pansion of business, and it seems reasonable to expect that to win a certain volume of foreign trade would require relatively more working capital than to win an equal volume of domestic trade. Generalizations are of little value here, however. The manufacturer who sells to the export trade through a commission house or export merchant finds that his foreign business makes no extra demands on his capital resources beyond what would be the case in domestic business. Other manufacturers have won overseas customers direct through mail or by means of cooperative representatives, and have found their requirements for working capital relatively small. Where salesmen are sent abroad, branch houses established, and complete export departments organized, large capital is neces-

sary; and frequently much money must be invested before adequate returns begin to show. Permanent customers abroad can rarely be won in a hurry; they must be cultivated, and patience no less than persistence and confidence are cardinal virtues in the successful export manager.

Another problem is that of selecting the markets to be entered. Obviously certain

*Knowledge
of Markets*

goods are adapted to certain markets,

and are ill adapted to other markets;

but beyond this there are numerous incidental reasons which affect the choice of a market. Existing competition is one of these. Prevailing credit terms and merchandising methods are also significant. The commercial law of the country, patent and trade-mark protection, and trade restrictions are important items in judging a market. A favorable tariff policy and especially a movement of imports from the prospective market make it attractive to an exporter. Cuba, for example, is a good market for many United States manufactures because of the proximity of Cuba to us, because of a preferential tariff, because of the large imports of Cuban sugar, tobacco, and other products to the United States, and in general because of the friendly relations which exist between the two nations.

Frequently an obvious nearby market like

Cuba or Canada will be passed up by a manufacturer and preference will be given to some distant market, perhaps one in Asia or Africa or Oceania. Competition may be less keen in the distant market, or it may be that special uses for the manufacturer's products are developed there and markets actually created. This was the case with the introduction of petroleum into China and certain markets of the Orient by the Standard Oil Company. In order to make customers for its product, the Standard made and sold for a few cents a small tinned lamp which soon largely displaced the antiquated whale-oil lamps and tallow dips, and created a continually growing demand for kerosene. The Singer Sewing Machine Company and the International Harvester Company likewise found it necessary to educate backward peoples to the use of their products, and so created new markets.

The new exporter, whose capital resources are not unlimited, usually has the problem of picking the markets which involve the lowest percentage of promotional expense coupled with the largest promise of permanent trade. Later on, as his export business grows and his organization with it, he may venture into the more difficult markets—though of course he can at any stage of his progress call upon the service of the export merchant and while ex-

porting directly to some markets be selling his product indirectly through middlemen to others.

Knowledge of the markets is a basic factor in foreign trade planning and practise. Dependent on it is the selection of methods of exporting, adaptation of sales appeal, advertising policy, price policy, and credit policy.

How shall the export enterprise be carried on? As is the case in domestic selling, so in

Methods of Distribution that of export, there are several methods of distribution open to the manufacturer. In general these may be grouped under two headings, (1) Direct, and (2) Indirect, as follows:

1. Direct exporting.

- a. By mail.
- b. By traveling salesmen.
- c. By local representatives abroad.
- d. By branches.

2. Indirect exporting.

- a. Through export merchants.
- b. Through commission houses.
- c. Through manufacturers' export agents.
- d. Through export associations organized under the Webb-Pomerene Act.

The fundamental difference between the two classes of methods is that in direct export-

ing the manufacturer himself has all the responsibility of winning and dealing with foreign customers, whereas in indirect exporting this responsibility is cared for by the intermediary. In the latter case, the manufacturer simply supplies the goods, fills the orders as they are sent to him, being careful of course to pack them carefully for overseas shipment, and paying scrupulous regard to the customer's specifications. But the details of documentation, of foreign shipping, of financing and collecting are no longer laid upon the manufacturer. They are cared for by the export merchant or other middleman, and so far as the manufacturer is concerned the business is no more complicated than that of selling a bill of goods to a domestic jobber, wholesaler, or broker.

The advantage of exporting direct lies in the fact that such business is more truly your own business than any that is obtained through an intermediary trader. The foreign buyer who purchases through a commission house thinks of the commission merchant as the source of the goods, rather than the manufacturer. Even though the product may be a patented and trade-marked one, bearing the manufacturer's name, it is the commission merchant with whom the customer has had

dealings and whom he remembers in connection with the goods.

In practise, most manufacturers make use of both kinds of exporting methods. To some markets they export direct, having travelers in some, branches and an extensive local organization in others, and perhaps selling by mail to others; while in still other markets they depend upon the well-established service of the export houses, manufacturers' agents, and other middlemen. The size, character, remoteness, and established trading customs and facilities of each market in relation to his goods determine the question for the individual manufacturer.

The method of distribution adopted determines to a large extent what shall be the char-

Export Organization acter of the export organization. If the foreign venture is on a large scale, with numerous branches abroad, it may be found advisable to organize the export department of the business as a separate company, with its own capitalization, executives, and personnel. A separate selling company may take any one of several forms; it may be an allied company, a joint selling company, an independent selling company.

Usually where an allied company is used, it is formed abroad to care for the sale of the manufacturer's product in a particular mar-

ket. Thus a furniture company in the United States may organize a Canadian company to sell its products in Canada. Such an organization is frequently a means of escaping onerous restrictions in bringing goods into a country and also a means of protecting patent and trade-mark rights.

The United States Steel Products Company, usually referred to as the selling organization of the United States Steel Corporation, is a joint selling company. It represents in the foreign field the products of the several steel companies subsidiary to the United States Steel Corporation, buying from these mills at agreed prices, selling abroad on its own account. The United States Rubber Export Company is the same kind of organization, and is the foreign distributor for the companies in the U. S. Rubber Company group.

Examples of independent selling companies are the North American Copper Company, which is really a kind of commission house representing a number of manufacturers who have merged their foreign trade activities in this way, and the National Paper and Type Company, which represents several manufacturers in non-competing lines.

The separate selling company is the high extreme of export organization, and is manifestly adapted for large-scale business or for

cooperative effort. Less elaborate is the export department within the company and under the direction of an export manager. Sometimes this manager is one of the executives of the company; usually he is under the general sales manager, export sales and domestic sales thus being recognized as two arms of the selling end of the business. Where the business is predominantly domestic, the export activities are frequently carried on by a small department within the domestic sales department. Unit V of the Course will discuss in detail the built-in export department.

In this chapter it has been possible only to sketch in the barest outline these internal problems of the exporter—merely to introduce them. The succeeding Units of the Course will be devoted to the detailed amplification of these subjects—presenting them in logical order and from the practical point of view of the American business man. From the conception of foreign trade as a national interest, and with this as the essential background of all our foreign trade study, we proceed now to the individual interests of the business man as he faces his individual foreign trade undertaking with its problems of markets, policies, methods, and technique.

How shall he appraise the foreign countries

in terms of sales possibilities? How shall he select the best markets for his product?

How shall he analyze his own preparedness for foreign trade? What standards will guide him in considering the prospects of overseas business?

What factors are to be considered in determining price and credit policies?

What machinery exists to assist the manufacturer in selling abroad? When is it advisable to develop your own machinery, and what forms may such a sales organization take? How may such an organization be formed?

What are the peculiar problems of direct exportings? How does the exporter select salesmen, what standards of selection are important, how is the traveling salesman directed, what are his problems, how should the firm treat him?

When the sales activities have been fruitful, and orders have been secured, what steps must be followed in executing these orders and getting the goods to the customer?

What guides the exporter in his choice of transportation agencies? What transportation details should he know in order to operate successfully?

How are foreign shipments financed? How is credit extended? What are the usual means of securing payment? How does international

exchange affect the merchandise trader? How do bankers and investment houses cooperate with traders in upbuilding international commerce?

What differences in laws and governmental regulations must the foreign tradesman look out for? What are the prevailing systems of law, as they affect commerce?

How is import business handled? What are the principles observed and the methods followed in buying abroad and bringing goods into this country?

What sources of information are available to the American exporter and importer? What direct aids to foreign trade exist in the government departments and bureaus, in the various national and local associations of business men, and in the institutions that give attention to foreign trade? Where can the business man go for reliable data on markets, policies, and methods?

These questions go to the heart of the problems of the exporter and importer, as he meets them every day. They call for the detailed "know how" of foreign trade. The answers to these questions form the subject-matter of the remaining eleven units of the Course.

QUIZ QUESTIONS

I

1. How does foreign trade differ from domestic trade?
2. How do these differences affect the conduct of foreign trade?
3. Name three reasons why a manufacturer should not confine himself to domestic markets.
4. How would you go about following up the inquiry from Ceylon, mentioned in this chapter?

II

5. Mention eight groups of business men who function in foreign trade.
6. Under what conditions is knowledge of foreign languages important to a man in foreign trade?
7. What are the six qualities that are outstanding characteristics of the successful foreign tradesman?
8. Why is broad knowledge an important essential in the trader's makeup?
9. What is meant by resourcefulness?
10. Explain the importance of responsibility, and its meaning, as applied in foreign trade.
11. Why does foreign trade call for an unusual gift of adaptability?
12. What is meant by breadth of interests and sympathies? How is this related to adaptability and to knowledge?
13. Name five elements entering into Americanism, as the term is used here.

III

14. In what sense is it true that competing manufacturers in domestic markets must become more or less partners and co-workers in foreign markets?
15. What is "dollar diplomacy"? How does it affect foreign trade?
16. Mention five ways in which government aids and promotes foreign trade.

17. What is the machinery of foreign trade?
18. In viewing a foreign market and planning a method of sales attack, what five groups of national conditions or characteristics must be taken into account?
19. What personal characteristics of the people must be recognized in introducing a product into a new market?
20. When is a manufacturer justified in catering to a market?
21. How does the tariff affect choice of markets?
22. What influence does the law and prevailing customs of business have upon the desirability of a market?
23. How do political and labor conditions affect markets?
24. How do monetary standards and the rate of international exchange affect foreign markets?

IV

25. How does the conception of nations as producing units illustrate division of labor or specialization?
26. Why is foreign trade dependent upon specialized production?
27. What is meant by the production of surpluses?
28. How does diversity of resources affect foreign trade?
29. What are natural resources?
30. What are artificial resources? Mention five distinct artificial factors that may be classified as trade resources.
31. Name examples which show the advantage which the possession of artificial resources gives a nation.
32. Explain the statement that "trade is reciprocal."

V

33. What influence does factory production have upon a nation's foreign trade?
34. What chief factors determine the prevailing industry and exports of a country?
35. Why were the bulk of our exports fifty years ago of agricultural products and foodstuffs?

36. Why has the proportion of manufactures in our exports grown?

37. How has the rise of industrialism in the United States affected the character of our imports?

38. Explain why we sometimes export and import the same classes of goods?

39. Mention three stages of foreign trade development, and name a country in each stage.

VI

40. What three nations were the chief rivals for the trade of the world in pre-war days?

41. What was the relative standing of the United States in export trade at the close of the World War?

42. What economic urge has compelled the European belligerents to go after export trade?

43. How did the war affect Japanese trade?

44. What factors enter into our preparedness for foreign trade?

45. How will an American merchant marine contribute to the upbuilding of American foreign trade?

46. How does the extension of American banking facilities aid our international traders?

47. What is the purpose of the Webb-Pomerene Act? How does it operate?

48. Outline briefly the government's trade information service, as provided for American business men engaged in foreign trade.

VII

49. In what continent have been our principal export markets?

50. Name three staples (raw materials) supplied by us to Europe in great quantities.

51. What type of countries are our new customers?

52. How did the war affect our sources of supply for imports?

53. How did the war affect our balance of trade?

54. Name two remedies for an unbalanced trade such as the United States found itself with at the close of the war.

55. How does the future of trade depend upon the expansion of industry? Why will the export of capital vitally affect our trade development?

VIII

56. What factors enter into the determination of export price policy?

57. Explain C.I.F., F.O.B., C.I.F. & E., C.I.F. & C.

58. What factors enter into the determination of credit? Name five different terms of payments customary in export trade.

59. What considerations affect an exporter in packing his goods for overseas shipment?

60. Mention nine details involved in making an export shipment. What type of middlemen is prepared to look after these details for an exporter?

61. How are export transactions financed?

62. How may a manufacturer sell his goods abroad without extra outlay of capital?

63. Mention six factors to be considered in judging the desirability of a foreign market.

64. What are the two general methods of export selling? Mention four specific methods under each.

65. Mention three forms which a separate selling company may take.

KEY TO TESTS IN CHAPTER II

KNOWLEDGE

1. Peru
2. French
3. Pound Sterling
4. Buenos Aires
5. North Atlantic
6. 110 pounds
7. Those signed by the steamship company
8. Petroleum
9. Errors and Omissions Excepted
10. Trademark
11. Free Alongside Ship
12. Cost, insurance, freight, paid by shipper
13. 19.3¢.
14. Copenhagen
15. (a) 30 days
(b) 90 days
16. A concern that for a consideration will take care of all shipping details, documentation, and the like, for an exporter. A forwarder is in effect a middleman dealing in transportation.
17. Great Britain, Germany, France, United States
18. Dollar exchange
19. Division of Foreign Tariffs, Bureau of Foreign and Domestic Commerce, Washington, D. C.
20. Drawback
21. Brazil
22. 100 to 110 pounds
23. Duties levied on the basis of weight, measure, or number, and not affected by the value of the goods, are "specific."
24. General average
25. "D/A"

RESOURCEFULNESS

1. Eight possible places where information regarding your prospective customer may be on file are suggested below. Your own ingenuity (even though you may not

be especially familiar with foreign trade procedure) will probably suggest other possible sources. If you name at least five good sources credit yourself 20 per cent; if you are able to name only four, credit 15 per cent; if three, credit 10 per cent; if two, credit 5 per cent; if only one, credit 2 per cent.

1. Obviously, the first place to inquire is the local office of the United States Bureau of Foreign and Domestic Commerce.

2. The New York firm given as a reference.

3. Phone or wire American and English banks in Chicago and New York which have agencies in Chile—and presumably a file of credit information covering the leading Chilean merchants.

4. Try the mercantile agency or agencies for whose services you subscribe.

5. See what the Chilean Consul in Chicago or the Chilean Consul-General in New York may be willing to tell you; they will probably refuse to give credit information, but may at least warn you if your caller is not in good repute.

6. Try the office of the Secretary of the National Credit Men's Association which is likely to be in position to warn you if a fraud is being attempted.

7. Phone or wire to export merchants, especially those in New York which have continual dealings with Chile; they may or may not be willing to give you information, but the effort is worth making.

8. Wire the offices of the National Association of Manufacturers, the American Export Manufacturers' Association, the National Foreign Trade Council or any other similar bodies.

2. Write or wire the customer a brief statement of the existing traffic situation, and explain that you will deliver the goods by motor delivery from your factory to Toronto, charging the regular railroad rate for the transportation service. Offer the alternative of a small reduction in price if the purchaser will take the goods

at the factory, set up, and ready for his drivers to drive to Toronto. The proximity of a factory in New York state to a large customer in Toronto makes this solution practicable, whereas it would not be for a manufacturer far removed from his customer.

3. The correct marking for the eight statements, with reasons therefor, follows:

- a. *False.* Trade is reciprocal, and the best situation is where there is balance between exports and imports.
- b. *False.* Many factors other than cost of production enter into foreign trade success—such factors as sales ability, financing facilities, favorable tariff arrangements, the investment of capital abroad, and the like.
- c. *True.* Industrial unrest directly affects both the security of government and the safety and security of business.
- d. *False.* Many other factors than sales plans and sales organization affect the success of the export enterprise, as indicated in the answer to b above.
- e. *False.* The merchandise requirements of a market depend largely on the state of civilization and the standard of living which prevails among its people.
- f. *True.* The manufacturer may find it desirable to overlook any profit from his export business, securing his profit from domestic sales, if he finds that the big scale production made possible by selling abroad as well as at home so lowers his production costs as to enable him to compete more successfully with rival manufacturers.
- g. *True.* The business concern in a foreign country which gets its capital in the United States, is likely to buy its equipment and supplies here also.
- h. *True.* Regularity and reliability of transportation service is a big factor in winning foreign customers.

4. The paragraph complete, with the inserted words italicized, is as follows:

"The desirability of *cooperation* for foreign business is made acute by the importance and almost the necessity of having a *varied* line of products. The manufacturer then is able to supply the *entire* requirements of a customer, and it puts him in a *favorable* position before the customer. It also enables him to keep his *warehouses* reasonably *filled* with *goods*, and yet not have them *overstocked*, as the smaller fellow would have to do, not being able to *figure* out the ups and downs in the *trade*."

ADAPTABILITY

2. This is a test of your ability to seize quickly and act upon the customer's point of view, without sacrificing the vital interests of your house or yourself. On this basis, weights have been attached to the various suggested lines of action as follows.

i. *c* is preferable, because it promptly assumes responsibility for the loss, without being so decisive as *a*; the way is opened to compromise. Grade 20 per cent.

a is next preferable. Grade 12 per cent.

d admits that packing was not good, but shifts responsibility to the customer and would probably irritate him unnecessarily. Grade 4 per cent.

b acknowledges no responsibility for bad packing or any other cause, shifts responsibility to the climate. Grade zero.

ii. *d* seems to be the most tactful way of approach to such a customer, appealing both to logic and to self-interest. Grade 20 per cent.

a is the broad attitude of tolerance. Appreciation of the customer's point of view is likely to soothe his ruffled feelings, while such an attitude does not necessarily mean that you are in agreement with his point of view. Grade 12 per cent.

c at least escapes the pitfalls of an argument. Grade 4 per cent.

b is obviously the worst method of all. Grade zero.

III. *c* insures getting as much of the business as you are prepared to handle, and at the same time it is likely to be the course of action most pleasing to your customer, since his order is marked "rush." At the same time, cabling explanation shows prompt attention and consideration for his interests. Grade 20 per cent.

b's effectiveness depends upon how nearly the substitute approaches the genuine, but such a course of action involves an element of danger since the customer may resent your presuming to fill his order with a substitute. Grade 12 per cent.

a is a slow process, likely to lose the business, since the customer is in a rush. Grade 4 per cent.

d is the worst plan of all, since it surrenders the business without further effort. Grade zero.

IV. *c* is the most tactful declination, since it implies no reflection upon the customer and at the same time does give a reasonable excuse. Grade 20 per cent.

d, a courteous formal declination, is hardly likely to raise any question in the customer's mind. Grade 12 per cent.

a might be taken by the customer as a hint to his generosity; at all events, its admission of financial stringency would be likely to affect adversely his estimate of you and your house. Grade 4 per cent.

b is tactless; in effect it tells the customer that he does things which you disapprove. Grade zero.

BREADTH OF INTERESTS AND SYMPATHIES

Samurai—A member of the soldier class in Japan under the ancient feudal régime.

Garibaldi—An Italian patriot and military leader.

Arica—A port in the nitrate district of Chile.

cartel—German trade combination.

Koran—The sacred book of Mohammedanism.

“*cash*”—Chinese coin.

Reichsbank—The state bank in Germany.

Zola—An eminent French novelist.

pood—A Russian measure of quantity.

Diesel—The inventor of a type of oil burning engine; also applied as a name to such an engine.

Punjab—A province of British India.

Borghese—The name of a celebrated aristocratic family of Italy.

St. Gothard—A pass through the Alps; a tunnel under the Alps.

Limoges—A French city celebrated as a center for porcelain and china manufactures.

pasha—An Ottoman or Egyptian military title.

Algeciras—A seaport in Spain, near Gibraltar.

Celt—A member of the western European branch of the Aryan family that includes the Irish and Welsh peoples.

Valhalla—In Norse mythology, the palace of immortality.

Trafalgar—A decisive naval victory of England over France and Spain in 1805.

milreis—The Brazilian coin, unit of monetary value in that country; also Portuguese, though not of the same value.

Kolchak—Russian military leader opposed to the Bolsheviks, and head of the provisional Omsk government in Siberia.

Venizelos—A statesman and political leader of modern Greece.

Fiume—A city on the eastern coast of the Adriatic Sea.

comprador—A native merchant who acts as intermediary between foreign traders and natives, especially in China and Japan.

Nizhni Novgorod—A city in central Russia, famed for its fairs.

alcalde—A magistrate in a Spanish or Spanish-American town.

bourse—An exchange or money-market, applied to stock exchanges on the continent of Europe.

mosque—A Mohammedan church.

go-down—A Chinese or East Indian warehouse.

Hanseatic League—A medieval confederation of northern German cities and neighboring countries for commercial and political cooperation.

hong—In China, a mercantile warehouse or row of warehouses, or foreign factory including agent's residence.

Montesquieu—A French jurist and writer.

Colon—A city at the eastern entrance to the Panama Canal.

Buddha—An oriental teacher and saint, the founder of Buddhism.

Bagdad—A city of Arabia.

Kimberley—A town of South Africa, the seat of diamond mines.

raja—The prince or chief of a tribal state in India; also used there as a mere title of distinction.

Cecil Rhodes—An English administrator, statesman, and financier in South Africa.

functional management—Scientific management; management in which the authority is distributed and the work organized according to functions to be performed.

Hay-Pauncefote Treaty—Treaty between Great Britain and the United States relating to the Panama Canal, negotiated in 1901.

Sublime Porte—The government of the Turkish empire, or in a diplomatic sense the country itself.

Delhi—A province and city in India.

Queensland—A state of the commonwealth of Australia.

cordovan leather—A special kind of horsehide leather.

"nationalization"—The transference of resources and public utilities from private to national ownership, as the nationalization of coal mines and the nationalization of railroads.

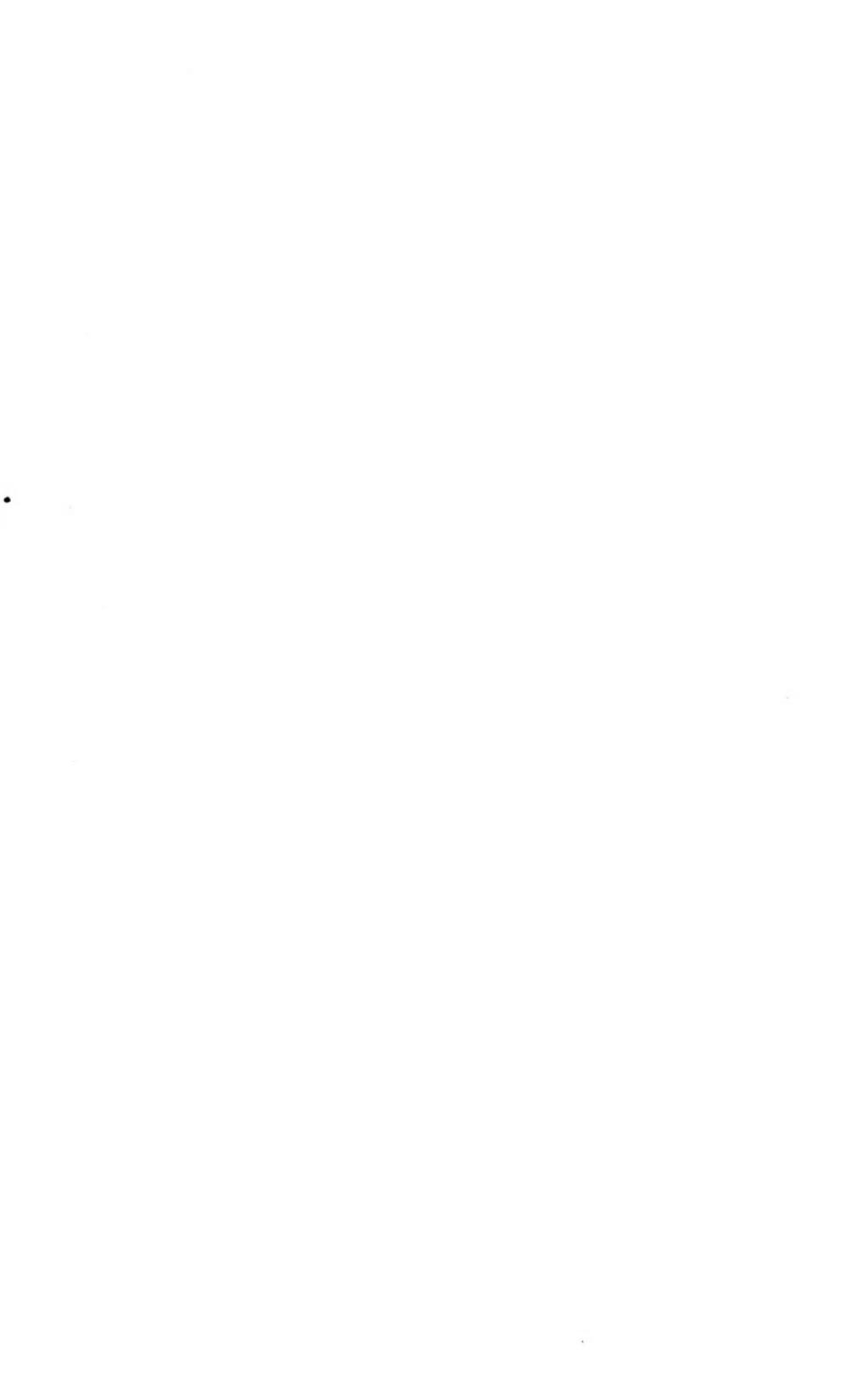
Chosen—The name of the Japanese province, the former kingdom of Korea.

bourgeoisie—The middle class; also, as used in modern socialistic discussion, the *propertied* or *employing* class as distinguished from the *wage-earning* class.

Dantzig—An important commercial city in west Prussia.

syndicalism—An economic movement which aims at the federation of workers in all trades into an effective unity for the purpose of enforcing the demands of labor by means of sympathetic strikes.

Mona Lisa—The famous portrait of a woman, painted by Leonardo da Vinci.





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COURSE IN FOREIGN TRADE

Unit I

This envelope contains the following material:

- I -A letter from the Director of the Course.
- II -A Reading Report and Question Card.
- III-A Problem and an envelope addressed to the Secretary of the Course, in which the solution to the problem should be mailed.

First: Read the letter from the Director of the Course.

Second: Read the text book through once. Try to complete this reading at one time, reading continuously from beginning to end.

Third: Fill in the Reading Report Card, showing the date when the Unit was received and the date upon which the first reading was completed. If you have any questions on the subject matter of the text book, you may note them on the card and they will be answered either on your next problem solution or by special letter, if necessary.

Fourth: Study the text book carefully, chapter by chapter, testing your knowledge by means of the Quiz Questions which you will find in the back of the text book. The Quiz Questions are arranged in sections which correspond to the chapters of the text book. It is not necessary to write out the answers to the Quiz Questions.

Fifth: Write your solution to the problem, using the solution sheets with which you have been supplied. Study the problem carefully before you begin to write and be sure that you understand exactly what is required.

Sixth: Mail the solution to the Secretary of the Course in the envelope provided.

The material in this envelope was formerly carried in pockets in the front and back covers of the text books. It is hoped that the new arrangement will avoid the inconvenience which was sometimes caused by the loss of material which dropped from the pockets when the books were unpacked.

